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# Employee participation in Sharesave schemes: a case study analysis of three companies in the UK retail sector.

by

Christopher Paul  
Jackson.

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## ABSTRACT.

This thesis addresses the question as to why employees participate (or not) in their company's Sharesave scheme. A model of the factors which influence participation is developed based on the financial participation literature and pilot study interviews with a selection of company Sharesave scheme managers.

Using a case study approach with three companies in the retail sector, quantitative and qualitative methods are applied to determine which aspects of the model influence participation by employees. Particular importance in the methodology is placed on understanding the employee's perspective in relation to Sharesave schemes by interviewing both participants and non-participants.

The thesis argues that employees participate (or not) in the Sharesave scheme on what they see as their best interests. The findings suggest that participation in Sharesave schemes do not generate either a greater commitment to the company or come from a desire for ownership. However, the thesis did find that the changing nature of employment (in particular the growth of part time work and different types of part time workers) was an important factor influencing participation rates.

Finally, this research concludes that financial participation schemes could not be properly evaluated without talking to employees. It is only by understanding the meaning that such schemes have for the individual in terms of the actions that the employee takes and why, that one can truly understand the impact of financial participation schemes.

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## **TERMINOLOGY AND ABBREVIATIONS.**

**ABI – Association of British Insurers.** The ABI provide guidelines on the dilution effect of share incentive schemes, which say `commitments to issue new shares under all such schemes in the company must not exceed 10% of the issued ordinary share capital of the company in any rolling 10 year period`. ([www.abi.org.uk](http://www.abi.org.uk))

**ADST – Approved Deferred Share Trusts.** These are trusts set up by companies as a result of the Finance Act of 1978. Money, usually a profit share, is used to acquire shares in the company for employees who are contracted to work 25 hours or more/week and with five or more years of service. All employees who meet this definition must receive shares on a formula related to pay or length of service. Companies are exempt from corporation tax on the profits and employees are partly exempt from income tax on the value of the shares if they are held for at least four years and totally exempt if they hold them for seven years. (Fogarty and White, 1988:2)

**AGM – Annual General Meeting.**

**APS – Approved Profit Sharing schemes – see section 2.3.**

**Capped** – the amount saved to a Sharesave scheme is limited by the company to below the IR maximum of £250/mth. This is achieved by either limiting contributions at the time of invitation or scaling back applications when employees apply.

**Colleague** – the name given to an employee in J.Sainsbury.

**CSOP – Company Share Option Plan – see section 2.3.**

**CTFs – Child Trust Funds.** CTF is a Government initiative to encourage savings for a child's future. CTF is an account designed to provide a child with a cash lump sum when they reach the age of 18.

**DB – Defined benefit pension scheme.**

**DC – Defined contribution pension scheme.**

**EBT – Employee Benefit Trust.** A general trust, normally off-shore, in which company shares can be stored for future use against share scheme options without accruing any tax liabilities.

**EFILWC – European Foundation for the Improvement of Living and Working Conditions.**

**EOI – Employee Ownership Index.**

**ESOP – Employee Share (or Stock) Ownership Plan.** An ESOP is defined as any tax-qualified, individual account, deferred-compensation plan that invests a significant portion of its funds in employer stock.

**FSA – Financial Services Act (or Authority).**

**GAO – General Accounting Office (of the USA).**

**HR – Human Resources.**

**`Hunting the share price`** - cancelling a Sharesave scheme in order to take up a subsequent scheme with a lower option price.

**IDS – Income Data Services.**

**IR – Inland Revenue.**

**ISA – Individual Savings Account.**

**ONS – Office of National Statistics.**

**Option** – the right to purchase a specified stock at a specified time and rate.

**PEPPER – Promotion of Employee Participation in Profits and Enterprise Results.**

**Participation [in a Sharesave scheme]** - is defined in this thesis as the number of employees who accept the invitation to participate in a Sharesave scheme divided by the number of employees who were invited to participate. The level of participation is expressed as a percentage.

**Part time employee** – is defined in this thesis as any employee who is contracted to work less hours than the company's standard working week.

**QUEST – Qualifying Employee Share Ownership Trust.** Trust set up to store shares to meet maturing options from Sharesave schemes without accruing any tax liabilities. Now largely superseded by EBTs.

**RPI – retail Price Index.**

**SAYE – Save as you Earn.** This was the original name that was given to the scheme. It was subsequently replaced with the name Sharesave Scheme. These two names are used interchangeably in this thesis.

**Shareholder rights.** The rights accruing to an owner of company shares namely the right to (i) attend the AGM, (ii) receive the annual report and (iii) vote at the AGM.

**SIP – Share Incentive Plan – see section 2.3.**

**WIRS – Workplace Industrial Relations Survey.**

**Under/below water.** The option price of a share is above the market price and therefore valueless.

**401(k) plan** – is defined as a profit sharing or stock bonus plan that contains a cash-or-deferred-arrangement.



# Chapter 1.

## An introduction to the thesis.

### 1.1 INTRODUCTION.

This thesis investigates the reasons why employees participate or not in their company's Sharesave scheme by looking at three case studies in the retail sector. During my career as a management consultant, I spent many years in the 1980s and 1990s advising the recently privatised utility companies, particularly the water and electricity companies on sound management as a quoted company on the stock exchange as opposed to an organisation under public ownership. In fulfilling this responsibility, I spent many days with front line employees when they went about their daily work maintaining and repairing remote sited facilities. During this time with employees, the conversation often turned to whether the employee had taken up the share offers that the company had made to employees at privatisation or had taken up the Sharesave scheme that was also typically offered. I discovered from these conversations that some employees were keenly interested in the shares that had been offered and had amassed a sizeable share holding. For others, the attitude was that purchasing company shares was an unnecessary risk that was unlikely to benefit the employee. Bearing in mind that some of these employees were in the same maintenance teams and were, in several cases, friends outside of work, it

was surprising that there was such a disparity of views. From these experiences arose the interest in why some employees took up share scheme opportunities and others did not.

## **1.2 IMPORTANCE OF THE TOPIC.**

Today, issues surrounding `saving for the future` are at the forefront of public discussion as the Government considers what actions should be taken to ensure that working people save enough for their retirement and to address the fact that the state pension scheme is supporting an ageing population which is putting an ever increasing tax burden on the declining number of people who are working. Poor performance from the stock exchange over the recent years has compounded this situation, reducing the value of existing funds that have been saved for the future and discouraging employees from saving to schemes that have shares as the basis of value.

A main plank of this discussion is the work of the UK Pensions Commission established by the Government in December 2002 to look at how things should change to address the under funding of retirement to avoid a potential financial crisis for the country in years to come. The Commission's remit was described as `keeping under review UK pensions and long-term savings and to make recommendations to the Secretary of State for moving beyond the current voluntarist approach`. This commission, now known as the Turner commission after its chairman, Adair Turner, issued its interim report in October 2004 and is committed to its final report by the end of November 2005.

The interim report presented the scope of the problem and laid out a number of options rather than came up with recommended solutions. The scope of the problem was highlighted in various ways namely `that the dependency ratio of over 65s to 20-64s would rise from the current level of 27% to 48% by 2050; that the gap between what the nation should be saving each year for retirement and what we are actually putting away is £27 billion; and that 44% of the workforce did not have pension provision beyond those on offer from the state`. (Osborne, 2005:1-3)

There has been public discussion on a wide range of related issues prompted by the Turner Commission's work. Typically, companies in the private sector stopped Defined Benefit (DB) pension schemes and introduced Defined Contribution (DC) pension schemes in the 1990s thereby passing the onus for saving for retirement from the employer to the employee. Secondly, the DC schemes became voluntary in many cases putting the employee in the position of choosing to participate in the DC pension scheme or not. So in the context of working people not saving enough for retirement, the voluntary nature of contributing to pensions has been questioned.

In the public sector, employees continue, predominantly, on DB schemes. This raises the issue that `if the private sector cannot afford DB schemes, why should the public sector?` The public sector unions have indicated their opposition to changing from DB schemes by saying they will request industrial action if the Government makes moves to change these arrangements. It is considered by some experts that the Turner Commission's remit should include public sector schemes, which it currently

does not. (On October 18th 2005, the Government announced that they had reached agreement with the public sector unions that the retirement age for public sector workers would rise to 65 for all new recruits but remain at 60 for existing employees)

In several ways, Government policies are seen as discouraging saving. For example, changes that have placed more of tertiary educational costs on individual students means, it is argued, that graduates leave university with high levels of debt that prevents them saving in their early career years. The tax credit system of benefits is seen as discouraging saving since once the level of savings passes a defined minimum the tax credit is lost (Montague-Smith, 2004:4). In addition, the stakeholder pension scheme, which was aimed at establishing a pension for those on low-income, is not considered to have been a success with a poor take up from those it was aimed to attract. (B&C Benefits Schemes, 2005) Finally, the Government can be considered to have discouraged saving with the withdrawal of TESSAs and PEPs (the replacement, ISAs, providing a less tax advantageous means of saving) and the reduction of the tax advantages of private pension schemes to the value of around £5 billion per year.

In the context of saving for the future, investing in share-related assets and/or housing offers the only real opportunity to increasing personal wealth although over short periods of time there are risks to achieving this. Typically, the advantages and process of purchasing one's own house is reasonably well understood. However, for share-related assets, there is more of an appreciation of the risks involved rather than what they are, their advantages and how they work. The fall in the stock exchange in 2001 has



raised the issue of whether shares are a sound investment into which to save especially for those people who are unfamiliar with their intricacies. This nervousness surrounding shares is seen in the take up of Child Trust Funds, a Government initiative to provide a sum of money for all newly born babies when they reach 18 years of age. Parents are choosing interest-bearing schemes rather than schemes related to shares because of a nervousness or lack of understanding of shares.

Therefore this thesis is both timely and important to the debate on `saving to the future` since while investigating Sharesave schemes, it also examines employees' views on saving, shares and their general understanding of financial matters,

### **1.3 VARIATION IN PARTICIPATION IN SAVING/SHARE SCHEMES.**

Since Sharesave schemes are risk free while they are being saved to, it would be expected that the take up of such schemes would be high. Employees are being given the opportunity to purchase shares in their company at no risk. Yet the take-up of these schemes is highly variable from 8% in some companies to 85% in others. (IDS, 2001a:18-21)

The UK financial participation literature is not strongly focussed on this aspect of employee share schemes preferring more to assess if such schemes improve company results since this is given as one of the main reasons for introducing such schemes. The argument continues that if such schemes do improve performance, what are the aspects of the employees' relationship with their employer that causes it.

In the USA, the discussion on saving for the future centres on the 401(k) plan, which is the most common DC pension arrangement. (Bassett et al., 1998:265) Like the Sharesave scheme, 401(k) plans are employer sponsored schemes to encourage employees to save for the future. But the financial participation literature on 401(k) plans is more closely linked to `why employees participate in these schemes` since their purpose is to provide employees with a pension at retirement. If employees do not participate then the state will have a greater financial burden on it. Therefore, why employees participate in 401(k) plans is the key question that needs answering unlike Sharesave schemes where the question is more about how participating in the scheme influences the success of the organisation.

The 401(k) plan literature usefully splits the reasons for participation into `both employee and plan characteristics are likely to be important determinants of participation and contribution decisions`. (Munnell et al., 2000:7) Income, age, tenure, gender and house ownership are the main **employee characteristics** investigated. In addition, employee characteristics such as education, procrastination, lack of understanding of the scheme and the employees' planning horizon are also considered in some papers.

For **plan characteristics**, the match rate (the level to which the employer matches the employee's contributions), the extent that the plan is voluntary and the existence of other offered savings plans are factors that some authors consider.

Hence the US financial participation literature adds valuable insights to the debate in the UK on `saving for the future` by concluding that a range of employee and plan characteristics influence participation in 401(k) plans and therefore one might consider them to be influences on UK share participation.

#### **1.4 THE APPROACH ADOPTED IN THE THESIS.**

The methodology adopted in this thesis is to develop a model from both the financial participation literature and a pilot study. Then, quantitative and qualitative methods are used to assess which aspects of the model influence participation. Since interviewing employees individually is an important aspect of assessing the model, a case study approach is adopted to gain access to individual employees. Three case study companies from the retail sector were selected. Retail sector companies commonly provide Sharesave schemes as an employee benefit. Three companies were considered adequate to cover the range of views of employees on these schemes.

The financial participation literature in the UK, Europe and the USA looks predominantly through the lens of a quantitative approach to answer their questions, in most cases basing their analysis on large surveys. (Huberman et al., 2003:1) This approach has limitations since employees are treated as a large group and assumed to be homogeneous. Yet typically the responses in the research are skewed to those who participate. Secondly, employees' actions are not understood in depth since employees are considered in groups rather than as individuals. Understanding employees' reasons for participation at an individual level potentially increases the depth of understanding of employees' actions, enables the `logic` behind their

decision-making to be understood and gains an understanding of employees' knowledge of a wide range of financial matters in the context of their participation in these schemes.

This thesis aims to address the limitations highlighted above. At the heart of this approach is seeking to understand employees' views through interviewing. This addresses several aspects of the question 'why do employees participate in financial schemes'. Firstly, personal accounts are obtained in which the employee explains the logic of his/her decision-making. The interview approach also enables questions of clarification to be asked thereby getting employees to explain the thinking behind their actions. This further provides knowledge of what employees do and do not understand of general financial matters in the areas of saving and shares.

Secondly, the selection of employees for interview by employee characteristics such as gender, full time/part time, and participant or non-participant in equal numbers reduces biases between these categories. For example, when a survey approach is used, the replies are biased typically towards participants. (Baddon et al., 1989:173) In this research, participants and non-participants are interviewed in equal numbers and so the perspective of the non-participant is heard equally to that of the participant. This greater emphasis on the views of the non-participant is not common in the financial participation literature. In effect, this thesis is saying that understanding the views of why employees do not participate is as important as understanding the views of why employees do participate in saving and share schemes. Both views are needed to obtain a comprehensive understanding of the reasons why employees' respond to these schemes as



they do. This deeper understanding means that this research has identified a number of points raised by employees that are not mentioned in the financial participation literature. For example, 'hunting the share price' (cancelling a Sharesave scheme with a high option price and investing in the following scheme when the option price is lower) has been revealed because of talking to employees.

The greater depth of understanding created by interviewing employees also has enabled the causal direction of employees' actions to be explained more clearly. For example, it was found that the presence of, or participation in, a Sharesave scheme did not cause employees to stay with their company and therefore this thesis rejects the 'retention effect' claimed for Sharesave schemes.

The interviewing of employees follows a comprehensive analysis of company data on participation versus income, age, length of service, full time/part time and participant/non-participant. This quantitative analysis enables the whole population of eligible employees for the Sharesave scheme to be assessed prior to selecting the categories of employees to be interviewed. The quantitative analysis provides a picture of the participation (or not) actions of all eligible employees, which is then followed by the qualitative interviewing which provides an in-depth picture of the reasons for these actions from a smaller number of individuals. This mixed methodological approach is unusual in the financial participation literature.

## **1.5 SUMMARY OF THE FINDINGS.**

Whether to participate or not in Sharesave schemes is considered against a model of possible reasons (Figure 5.1), which is constructed from

the financial participation literature, and a pilot study. Overall, the findings are that factors associated with the employees' characteristics and attitudes influence participation in Sharesave schemes whereas factors associated with the employers' characteristics or attitudes do not.

As was found with the financial participation literature on 401(k) plans, this thesis showed that employee characteristics, such as income (higher), age (older) and length of service (longer) were linked to participation in Sharesave schemes. The findings also agreed with Clark and Schieber (1998:82) that there is a 'tailing off' of participation as employees approach retirement age. Unlike the 401(k) plan literature, gender was not found in this thesis to influence participation.

For other characteristics, there were similarities to the 401(k) plan literature. The 'planning' horizon of the employee was a consideration that influenced non-participation. In effect employees were saying that if they did not expect to be with the company in three years time, they would be unlikely to participate in the scheme. Employees' view of their career path over the next few years was the biggest single factor influencing non-participation. Employee procrastination also affected non-participation with employees agreeing that in a few cases they had not 'got round' to completing the application form for the Sharesave scheme.

The findings in this thesis also agreed that the characteristics of the savings plan influenced participation. 'Match rates and automatic enrolment', although important issues in the 401(k) research literature, were not applicable issues with Sharesave schemes. However employees in this research were strongly positive about their savings being deducted at

source. Employees suggested that if this did not happen, they would not be 'disciplined enough' to save regularly. This supports the view that schemes operating with an automatic enrolment (employees are enrolled into a scheme unless they take a positive step to opt out) are likely to have higher participation levels.

The waiting period (eligibility period) before employees were allowed to participate in the Sharesave scheme was found to influence the participation in this research. As the eligibility period was reduced, the participation level fell. This is to be expected since employees, who have only had to wait a short period of time before being eligible are probably those least likely to stay with the company. These employees may find they do not like working for the company in their early months or they may have joined for a short-term period before following their careers in other field e.g. students. Employees who have been with the company for several years are likely to be those who have decided that they wish for a long-term career with the company and are therefore more likely to participate in the scheme for a minimum of three years. So although short eligibility periods give the highest number of employees the opportunity to join the Sharesave scheme, the participation percentage goes down because in the early years there is a high percentage of employees who do not expect to stay with the company. Contrary to the financial participation literature, employees in this research said that the presence of, or participation in the Sharesave scheme did not influence them to stay with the company. Although the data showed that the turnover of participants was considerably lower than non-participants, this thesis concluded that the reason for this was that employees pre-decided

whether to stay with their company for three or more years before deciding to participate or not in the Sharesave scheme. Hence, the scheme did not have an impact on reducing turnover or increasing retention.

Attitudinally, this research found that employees participated in the Sharesave scheme because it was an easy way to save. They were not influenced out of loyalty to the company, nor by a desire for ownership of shares in the company, nor for the opportunity to exercise their shareholder rights and influence the progress of the company. The findings were that the interviewees did not understand their rights as a shareholder. This finding is important since it supports the view that Sharesave schemes do not influence company performance because employees are not motivated to work harder by the idea of a higher share price.

There were few differences in attitude between the different groups that were interviewed. In support of the statistical analysis, the views of male and female employees on the Sharesave scheme specifically and financial matters generally were similar. The views of participants and non-participants were also similar except on matters concerning the Sharesave scheme itself where participants, by taking up the scheme were more likely to show a greater interest in all aspects of the business and the company share price.

The employers' attitudes did not influence participation significantly. The objectives set by management for introducing the Sharesave scheme were not the objectives as to why employees participated. Nor were employees influenced by management's commitment to the scheme. Additionally, it was found that communications were focused more towards

the performance or progress of the store and region in which employees worked than about the company as a whole. Hence employees' loyalty was more towards the store in which they worked than to the company.

There were a number of findings made in this research that were not mentioned in the financial participation literature. The use of part time employees was prominent in this research since the three case study companies were from the retail sector. Full time employees were significantly associated with participation in the Sharesave schemes of the case study companies with a modest strength of association. However, it was found that part time employees were not a homogeneous group. Some part time employees worked as 'permanent' employees albeit working part time hours. Some part time employees worked as 'temporary part time employees' with no intention of remaining with the company but using the work to pay their way through university or as a temporary 'stop gap' in their career. These different groups of part time employees had different attitudes to saving to the Sharesave scheme. For example 'permanent part time employees' had attitudes similar to full time employees and would be likely to take up the scheme since they viewed their employment as 'permanent'. For other part time employees who expected to leave the company in the immediate future for a career in a different sector (for example students on graduating), they were unlikely to take up the Sharesave scheme since they were unlikely to be with the company in three years time. It is suggested that this 'non-homogeneity' of part time employees was the reason for the modest association between full time employees and participation.

The Sharesave scheme was used in a number of ways that showed that employees were inventive in maximising the value of the scheme to meet their own needs from it. Some employees took out a new scheme each year, say a 3 year scheme. When the first scheme matured, they would continue the savings from the matured scheme into a new scheme in year 4 and repeat this process each subsequent year. By this mechanism employees would have, from year 4 onwards, a maturing scheme every year. Employees used the maturing scheme to pay for their annual holiday or maintenance on their home. Hence, the Sharesave scheme was a reliable source of extra funds every year.

A second mechanism that employees used was to cancel poorly performing Sharesave schemes (when the market price remained well-below the option price) and to reinvest their savings in the subsequent year's Sharesave scheme when the option price was lower. Employees could repeat this process until they had invested in the lowest option priced scheme. This mechanism significantly increased the probability that the market price would be above the option price at the end of the savings period and that the employee would receive a capital gain from the options that s/he had accumulated. These mechanisms were not explained in any company information on the Sharesave schemes and were not reported in the financial participation literature. Employees 'discovered' these mechanisms by word of mouth.

Finally, it was found that the way the annual invitation to participate in the Sharesave scheme was distributed to employees influenced participation levels since some mechanisms excluded employees who did not work



regular hours. Distribution mechanisms that relied on employees picking up their annual invitation from their staff room or the manager's office were ineffective for employees who were new to the scheme or worked evenings and/or weekends. Distributing the invitations by post to the employees' homes was likely to be the most effective at getting employees to see the invitation.

Overall, the employees who were interviewed approached financial participation in Sharesave schemes from a `what's in it for me` position and did not `assume attitudes and opinions thought congruent with and directly related to share ownership`. (Ramsay et al (1990:183)

## **1.6 THE STRUCTURE OF THE THESIS.**

**This chapter** provides a comprehensive introduction to the thesis identifying why the subject was selected, why the topic is timely and important, why the methodology was adopted and a summary of the main findings.

**Chapter 2** provides the reader with an understanding of the workings of the Sharesave scheme, which is central to the research question in the thesis.

**Chapter 3** reviews the literature on financial participation and seeks to summarise the main impacts and outcomes that authors claim for these schemes in general, and Sharesave schemes and 401(k) plans in particular. In order to understand how Sharesave schemes are operated in practice, a pilot study of eight companies using these schemes was studied by

interviewing their Sharesave scheme managers. This pilot study is described in **chapter 4**.

On the basis of the literature review and the pilot study, the research question is posed in **chapter 5** and a model developed to address it. The chapter goes on to explain how the model drives the research methodology that is adopted and how this is operationalised.

This thesis uses a case study approach in the retail sector. The historical development of this sector including the histories of each case study company are reviewed in **chapter 6** followed by an examination of the issues that the sector faces. This provides the context in which the case study companies' Sharesave schemes are operated.

The analysis of each case study company compared to the model is covered in **chapters 7, 8, and 9**. A rich picture of employees' views on many financial aspects of everyday life, in general, and participating (or not) in the Sharesave scheme, in particular, is revealed. Having studied the case study companies individually, **chapter 10** compares and contrasts these companies providing another dimension of analysis in the research design.

**Chapter 11** brings together the findings from this research in relation to the model and the contextual picture. The implications of the findings for Government policy are then presented.

Finally, **chapter 12** draws the conclusions and implications from these findings, discusses the limitations of the research, makes some suggestions for future research and concludes with reflections on the model.

# Chapter 2.

## What is a Sharesave scheme?

### 2.1 INTRODUCTION.

This chapter provides a detailed description of the Sharesave scheme set in the context of the political environment in which financial participation schemes were introduced in the 1970s and 1980s. This description is provided to enable the reader to understand the views expressed by employees in the case study chapters 7, 8 and 9. Finally, the Barclays plc Sharesave scheme is exemplified to show the changes in the scheme that have typically taken place over the last fifteen years.

### 2.2 AN HISTORICAL PERSPECTIVE.

Although employee participation in the financial success of a company goes back over 100 years (see section 3.2), the idea, in modern times, was first resurrected politically by the Liberal Party in its 1966 manifesto.

‘Management should be encouraged by tax incentives to increase employee shareholding, because a financial stake is an important part of a man’s involvement with, and responsibility to, the company for which he works’.

They repeated this pledge in the subsequent 1970, 1974 and 1979 manifestos. (Liberal Party General Election Manifestos, 2000:123, 139, 156, 195)

Against a background of a deteriorating industrial relations environment, ('there were more strikes in 1969 than ever before in our history' - Conservative Party General Election Manifestos, 2000:184) the Heath Government introduced tax concessions for all-employee savings related share option schemes in the 1973 Finance Act although this was not a commitment made in its 1970 election manifesto. The Conservative Party continued to promote financial participation in its 1974 manifesto declaring 'we will lay a formal duty on all large and medium-sized firms to consult employee representatives [on] subjects such as profit sharing and share ownership schemes'. The Labour Government promptly abolished the Conservative Party's 1973 scheme when they won the October 1974 General Election. The deteriorating economic and industrial relations climate post the 1974 election led to the Lib-Lab pact and in 1978 saw the resurgence of financial participation schemes due to pressure from the Liberal Party with the introduction of the Approved Deferred Share Trust (ADST) which carried with it tax concessions. The Conservative Party repeated the financial participation pledge in its 1979 manifesto. (Conservative Party General Election Manifestos, 2000:240, 271)

Following the Conservative victory in 1979, the Finance Act of 1980 introduced a Save As You Earn (SAYE) share option scheme which apart from some minor amendments (the most significant being the introduction of a three year saving option via the 1996 Finance Act) has remained largely unchanged for nearly twenty-five years. The scheme is unique in the world. (Source: phone conversation with the IR, 19/01/05.)

Originally called the SAYE schemes, the modern name used by most company managers is Sharesave scheme. The two names are used interchangeably in this thesis.

The Labour Party has made no mention of such schemes in its manifestos until in 1992 it declared 'Employees should have the opportunity to own collectively a significant stake in the company for which they work, through a democratic Employee Share Ownership Plan (ESOP)'. (Labour Party General Election Manifestos, 2000:324)

## **2.3 GOVERNMENT APPROVED SHARE SCHEMES.**

In this section, three out of four Government 'approved' financial participation schemes are summarised. They are available today to companies or have been until recently (APS schemes). The fourth scheme, the Sharesave scheme, is explained in detail in section 2.4. Today, only two types of 'approved' financial participation share schemes, Sharesave and SIP schemes are genuinely available to all employees.

**(i) Approved Profit Sharing schemes (APS)** (Inland Revenue, 2004a) are schemes whereby employers pay a part of the profits to a trust by means of tax-deductible payments. This money is used to provide cash or shares (or a mixture), which are allocated to employees, both full time and part time, who have been with the company for five years or more (although the employer may accept employees with shorter service than this). The shares are free from income tax if left in the trust for a minimum period and the employee only pays capital gains tax on the difference between the selling price and the award value of the shares if appropriate. APS schemes were phased out in the year 2000. (IDS, 1993:1; IDS, 1995:1; IDS 1998:1)

**(ii) Share Incentive Plans (SIP).** In his 1999 budget speech, Gordon Brown announced the introduction of a new all-employee share plan that, after consultation, became known as the Share Incentive Plan. The SIP became law in 2000 and provides for a flexible combination of alternatives that can be offered to all employees. The alternatives that employers may offer to employees are: (a) **Free shares** (up to £3000) and employers can also link the award to performance measures (b) **Partnership Shares**. Employees can purchase shares from pre-tax salary up to £1500 per year. (c) **Matching Shares**. Employers can give employees up to two free shares for each partnership share that an employee purchases. All the Free and Matching shares must be held for between 3 and 5 years but there is no holding requirement on Partnership shares. No tax is payable on dividends (up to £1500/year maximum) provided those dividends are used to purchase additional shares. (IDS, 1999a:2; IDS, 2004:1-9; Inland Revenue, 2004b)

**(iii) Company Share Option Plans (CSOP)** (Inland Revenue, 2004c), previously called Executive Share Options, are where an employer grants an employee options to purchase shares in the company at a future date at the market price of the shares at the time of grant. CSOP, unlike APS and SIP, are discretionary and employers typically only grant options under this category to Board members and senior managers. Up to £30,000 of shares may be granted at one time and provided that the options are held for at least three years, capital gains tax is the only tax due on the difference in price between the option price and the selling price of the shares.

## **2.4 THE DETAIL OF THE SHARESAVE SCHEME.**

(IDS, 1993a:8-9; IDS, 2001a:13-16; Inland Revenue, 2004d)

This section looks at the detail of how a Sharesave scheme operates. Sections 2.4.1 to 2.4.7 explain the important aspects of how the scheme operates and section 2.4.8 looks at the number of schemes that have been approved by the Inland Revenue annually. Finally section 2.4.9 shows how the characteristics of a company Sharesave scheme, as exemplified by Barclays plc, has changed over time.

#### **2.4.1 The savings contract.**

All employees (including directors) are given the opportunity, normally once a year, to take out a savings contract with a `provider` to save between £5 and £250 per month for a 3, 5, or 7 year period. A `provider` is typically a Bank or Building Society. The scheme has tax advantages for both the employee and the employer. The Inland Revenue must approve the scheme, prior to introduction, in order for the employer to claim the tax concessions.

At the beginning, the employee must decide the period that s/he is saving for and it cannot be altered once the contract has been entered into. The sum that the employee elects to save is deducted at source, normally monthly, but arrangements can be made for weekly paid employees.

#### **2.4.2 The bonus.**

At the end of the 3 and 5 year contract, the scheme provider adds a bonus to the money saved to represent interest. The 7 year contract operates in a slightly different way. Employees save for 5 years and then leave the saved money for an additional two years thereby accumulating a larger bonus. The Treasury sets the size of the bonus, which is altered in line with the rate of interest prevailing at the time on an ad hoc basis.



At the completion of the savings contract, the money accumulated, including bonuses, may be taken as cash or shares with the employee having six months to decide what action s/he wants to take.

#### **2.4.3 The option price.**

The option price at which the employee may purchase shares at the end of the savings contract is set at the beginning of the savings period and may be up to 20% discount to the market price just prior to the scheme being launched. The option price is fixed and announced to employees as part of the 'invitation to participate' package. The option price is not altered for the duration of the savings period.

#### **2.4.4 Eligibility.**

The Inland Revenue lays down minimum eligibility requirements, which employers may improve upon at their discretion. Currently, all employees with 5 years service or more and part time employees who work 25 hours a week or more must be allowed to participate in the scheme. Normally employers' eligibility requirements are considerably more lenient than this.

Participation in the scheme is not open to anyone who owns more than 25% of the share capital of the employer.

#### **2.4.5 Leaving the scheme early.**

In the event of the contract ending before the savings period has been completed, the Inland Revenue provides clear guidelines as to the payments that are due.

In the event of the death of the employee, the beneficiaries may take the proceeds in cash or shares. In the event of the employee leaving his/her job through retirement, injury, disability or redundancy, the proceeds may be

taken as cash or shares up to the value of the accumulated savings. In the event of the employee leaving for other reasons, the employee receives the accumulated savings plus any interest due in cash, provided the savings contract has been in operation for more than a year. If it has been operation for less than a year, only the savings are refunded.

If the employee wishes to cancel the savings contract and requests his/her money back before the end of the Sharesave contract, the money saved will be repaid without interest if the cancellation takes place in less than a year. If the cancellation takes place between one and five years, the money is repaid with interest.

#### **2.4.6 Tax relief.**

No income tax liability arises when the proceeds of the savings contract, including bonuses, are used to buy shares or taken as cash. A tax liability only arises when the shares are sold and tax is only due if the capital gain on the shares is higher than the capital gain tax threshold for the employee. An income tax liability for the employee does arise where an option is exercised because the business is taken over or sold. The shares acquired under a Sharesave contract can be transferred into an ISA without any tax liability providing this is an alternative offered by the Sharesave provider. Normally, the employer can charge the administration of the Sharesave scheme as a concession against the company's tax liability.

#### **2.4.7 The shares.**

The shares issued at the end of the savings contract (if the employee elects to convert the options into shares) must be the ordinary share capital of the company and they must have the same rights to dividends and special

issues as all other ordinary shares. Hence an employee only becomes a shareholder when s/he has converted the options into shares at the end of the savings period. As a shareholder, the employee receives the annual report and can attend the AGM.

**2.4.8 The growth in Sharesave schemes.**

G r o w t h i n s h a r e s a v e s c h e m e s .	
Y E A R	N u m b e r o f s c h e m e s a p p r o v e d p e r y e a r
1980-1981	22
1981-1982	115
1982-1983	78
1983-1984	73
1984-1985	114
1985-1986	114
1986-1987	103
1987-1988	90
1988-1989	101
1989-1990	84
1990-1991	81
1991-1992	83
1992-1993	95
1993-1994	104
1994-1995	144
1995-1996	116
1996-1997	176
1997-1998	141
1998-1999	189
1999-2000	120
2000-2001	115
2001-2002	101
2002-2003	60
2003-2004	38

**TABLE 2.1**

**Growth in Sharesave schemes 1980/81- 2003/04.**

**(Source: Inland Revenue, 2004e)**

Table 2.1 shows the growth in Sharesave schemes since 1980. 2457  
Sharesave schemes have been introduced over this period.

These figures come from employers who are obliged to give these details in a return on their Sharesave scheme to the Inland Revenue annually.

Poole and Whitfield (1994:210) suggested that major changes in the adoption of schemes broadly correspond with political and economic conditions. Table 2.1 gives some support to this view.

The economic expansion in the 1986 to 1988 corresponded with a rise in the number of schemes adopted. This then fell with the recession of the early 1990s and rose again with the more prosperous period in the late 1990s, falling with the stock market fall of the early 2000s.

#### **2.4.9 How the characteristics of Sharesave schemes have changed.**

Income Data Services has reported the changes in the characteristics of a number of leading company Sharesave schemes in a series of papers since 1990. (IDS, 1990, 1993a, 1995, 1998, 1999a, 2001a) The performance of Barclays Sharesave scheme has been detailed in each IDS report over this period as shown in table 2.2. The changes to the Barclays Sharesave scheme are typical of the changes that companies have been making since 1990.

Firstly the eligibility requirements, allowed as a minimum of 5 years service by the Inland Revenue, have decreased to the present standard of 'only needing to be employed on the date of invitation'. Secondly, the introduction of a 3 year saving plan alternative by the Government in 1996 has proved popular with employees. So much so that the 7 year alternative has declined in popularity to the point that Barclays withdrew this alternative from their 2001 Sharesave scheme. Finally the discount offered on the option

price has improved such that from 1999 the full 20% discount is given, this being the maximum level allowed by the Inland Revenue rules. Interestingly the increase in discount to 20%, the reduction in the eligibility service requirement and the introduction of the 3 year scheme as a savings alternative do not appear to have led to an increase in participation in the Barclays scheme.

BARCLAYS SHARESAVE SCHEME: 1990 - 2001.				
YEAR	ELIGIBILITY	% PARTICPN	CONTRACTS	OPTION PRICE
1990	5 YEARS SERVICE	50%	5 YEAR PLAN 7 YEAR PLAN	10% DISCOUNT
1993	5 YEARS SERVICE	73%	5 YEAR PLAN 7 YEAR PLAN	10% DISCOUNT
1995	5 YEARS SERVICE	75%	5 YEAR PLAN 7 YEAR PLAN	10% DISCOUNT
1998	3 YEARS SERVICE	83%	3 YEAR (27%) 5 YEAR (58%) 7 YEAR (15%)	10% DISCOUNT
1999	1 YEAR SERVICE	67%	3 YEAR (40%) 5 YEAR (49%) 7 YEAR (11%)	20% DISCOUNT
2001	Employed on Invitation Date	66%	3 YEAR (45%) 5 YEAR (55%)	20% DISCOUNT

**TABLE 2.2**

**Barclays Sharesave scheme: 1990 – 2000.**

**(Source: IDS)**

The results of the 2001 IDS report (IDS, 2001a:18-21) on the performance of 36 company Sharesave schemes are shown in table 2.3.

(Although not every company provided data on each of the characteristics listed in the table).

Sharesave Scheme Characteristics (IDS, 2001a)	
Range of Particiation Levels	8% to 85%
Average Monthly Savings Level	£29 to £191
Use of the Full 20% Discount	84% of companies
Eligibility Requirement of No Service	35% of companies
Offers the 3 and 5 year Scheme alternatives only	44% of companies

**TABLE 2.3**  
**Sharesave scheme characteristics.**  
**(Source IDS, 2001a)**

This confirms the move by companies, as shown in the Barclays results, towards a low service eligibility requirement, full use of the 20% discount on the option price and the use of the 3 and 5 year scheme alternatives as opposed to the 7 year scheme.

Similar conclusions are found in the ProShare 2003 Sharesave survey (ProShare, 2003:4) of the six main SAYE administrators [providers]. Their key findings were that (i) the average [service] eligibility was 6 months (ii) the most popular schemes were 3 and 5 years schemes (iii) 80% of schemes offered the full 20% discount and (iv) 45% of companies had options that were `underwater`.

## 2.5 SUMMARY.

All three political parties have covered financial participation in their manifestos primarily promoting the aspect of `owning a stake in the company for which the employee works`. Today, only two schemes, the Sharesave scheme and SIPs are open, if introduced by their employers, to all employees. There are aspects of similarity between the two schemes with one key difference, namely that Sharesave schemes are risk-free until the end of the savings contract. Employers have increasingly made the Sharesave scheme as attractive as possible to their employees by reducing the eligibility service threshold towards `no service requirement`, increasing the option price discount to the maximum of 20% and introducing the 3 year savings alternative at the expense of the 7 year scheme. The description of the mechanics of the Sharesave scheme shows that it is a complex financial instrument, which requires considerable knowledge to understand completely.

The next chapter looks at the literature on financial participation, reviews the outcomes and impacts claimed by their authors and considers the limitations of the research.



# Chapter 3.

## Literature review.

### (Financial Participation)

#### **3.1 INTRODUCTION.**

The financial participation literature covers a wide variety of impacts and outcomes across several types of scheme. This chapter reviews these impacts and outcomes and the conclusions that the authors have drawn.

In addition, a broad perspective of the financial participation literature is considered, for example, by looking at the characteristics of companies that take up such schemes, typical sectors in which they are most common, the reasons that companies introduce schemes and the methodologies that are used in the research.

Finally, the chapter considers research on specific financial participation schemes. Firstly, the review considers research on Sharesave schemes, the subject of this thesis. Secondly, 401(k) plans (defined contribution pension plans in the USA) are considered, particularly the impact of employee and plan characteristics on employees' propensity to participate in such plans.

#### **3.2 FINANCIAL PARTICIPATION.**

In the UK financial participation has been in existence for more than 100 years. For example in 1889 the South Metropolitan Gas Company introduced a profit sharing initiative in the face of union claims for improved pay. As the chairman, George Livesey, said at the time 'could not the

company, instead of fighting the men, use their money and efforts in making them friends? Let the money that would be spent in a strike form the beginning of a fund for the men's benefit, to be increased in future by giving them every year a share in the profits of the company in addition to their wages'. (Lindop, 1989)

Research on employee share schemes is typically discussed as part of employee participation, which, itself, is split into **industrial participation**, and **financial participation**. Industrial participation deals with the rights of employees to participate in the decision-making processes of the company especially where it affects their own job. Financial participation covers employees' rights to participate in the financial returns of the company via ownership. Financial participation schemes are defined as 'offering the chance for employees to acquire a stake in the ownership of the company for which they work' (Reilly et al., 2001:ix). Ben-Ner and Jones (1995:532) further refined financial ownership by identifying that the 'ownership of an asset consists of the right to control its use and to enjoy its returns'.

This review concentrates on the financial participation aspects of employee participation although there are overlaps where, for example, employees' participation in decision-making is said to influence, positively, the impact of financial participation on business performance. (US GAO, 1987:3)

### **3.3 THE ADVANTAGES OF FINANCIAL PARTICIPATION.**

Financial participation can be considered from the standpoint of Government as to why they initiate and promote schemes; from the perspective of the employer as to why they introduce schemes; and from the

viewpoint of employees as to why they take up schemes. Each perspective is considered in turn.

### **3.3.1 The Government's view.**

An employee should not only be working on the shop floor or in the office. He should also be present at the Annual General Meeting as a shareholder. He should be wanting to satisfy himself that management is efficient and that profits are as good as they could be. (Margaret Thatcher) (Cited by Reilly et al., 2001:6)

I want, through targeted tax reform, to reward long-term commitment by employees and I want to remove, once and for all, the old 'them and us' culture in British industry. (Gordon Brown.) (Cited by IDS, 1999b:21)

Government sees the advantages of financial participation in terms of improving economic performance and the 'encouragement of capitalism' by employees assuming the mantle of a shareholder.

'There is a widely held view [in Government] that financial participation can bring a whole raft of benefits to an organisation. It can boost productivity, build employees' motivation and commitment, increase employees' financial awareness, promote greater involvement and help staff retention. It is argued that employees taking an interest in the company's share price and sharing in its success will encourage a longer-term view of the organisation and align their interests more closely with those of the shareholders. (IDS, 1999a:2)

Government sees financial participation as contributing to the closing of the productivity gap with other countries and improving the industrial relations of companies that participate in such schemes. (IDS, 1999a:2; Hanson and Watson, 1990:165)

Government also sees advantages in employee financial participation at two levels, the macro and the micro economic levels. At the macro economic level, employee pay mirrors the economic performance of the

company. When performance is good, employees gain a share of the profits alongside their wages and when performance is less good, profit related pay and consequently total pay will fall. Hence financial participation acts as a form of incomes policy. (IDS, 1990:3)

Secondly, at the micro economic level, financial participation is theoretically a motivation for employees to work harder for the organisation since they have a stake in its success so productivity would be expected to rise. Financial participation would be expected to lead to better financial information about the business from the employer to the employee since to motivate the employee with a stake in the company, the employee needs to be informed about the progress of the business. 'Such interest in business results should also lead to better-informed and co-operative pay bargaining. ... The theory is that employees through having a stake in the profitability of the organisation will strive harder to realise business success' (Reilly et al., 2001:5)

### **3.3.2 The employers' view.**

Employers would describe the benefits of financial participation as a means of controlling costs, taking advantage of tax breaks, attracting, retaining and incentivising staff and finally encouraging a sense of 'mutuality' between employer and employee. (Reilly et al., 2001:7) Profit sharing and share option schemes can help to foster a greater understanding by employees of how their performance affects company profitability. (IDS, 1995:1) Typically the employer would select the type of financial participation scheme based on which particular benefit(s) the employer is seeking. For

example an employer wishing to promote `mutuality` would introduce a scheme where shares were the reward rather than cash.

Like Government, employers see advantages in having schemes that vary the wages in line with business performance. Profit related pay meets this requirement and potentially links, in the minds of the employee, reward and business results.

Employers can introduce schemes to enjoy the tax benefits that go with them. (Reilly et al., 2001:7) (Beaumont and Harris, 1995:391 and 404) It is suggested that the main reason for Government's withdrawal of APS schemes, especially cash schemes, was that employers were only establishing such schemes to provide a more tax efficient distribution of wages. Few companies have retained APS schemes once the tax advantages had been withdrawn suggesting that Government was right.

There is an employers' view that financial participation adds to the benefits that the company offers and therefore attracts and retains employees to the organisation. Share options, which potentially provide selected employees with a monetary reward at a date in the future, lock such employees to the company for the life of the option since leaving the company prior to the completion of the option can have a large financial penalty. So, senior managers and high performers in particular are encouraged by, for example CSOP schemes, to deliver results in line with the expectations of the shareholder and to be rewarded when such results are achieved.

Finally, financial participation can be used by employers to foster `a wider form of employee involvement`. (Reilly et al., 2001:8) The advantages



of schemes under this heading is that the more that employees understand the links of their benefits to the success of the company, the more those employees will work to contribute to that success and therefore the success is more likely to be assured. Furthermore if the benefit is paid out in shares, the employee is more likely to identify with the interests of the shareholder and see success in shareholder terms as well as local business targets. There is also an expectation that this `wider-involvement` will have additional implications. An employer is more likely to keep employees informed about the performance of the business. The employer is more likely to involve the employee in the changes that the company is considering and in the decision-making particularly at local level.

Hence financial participation and industrial participation cannot be entirely separated. It is likely that the management culture that decides that financial participation schemes are a benefit is also the same culture that is likely to promote industrial participation policies. `Companies that have arrangements for employee involvement are more likely to have forms of financial participation'. (EFILWC, 2002a:1; IDS,1990:3)

### **3.3.3 The employees' view.**

The advantages of financial participation from an employees' point of view are two fold. Firstly, the employee may benefit from additional rewards and secondly the employee is more likely to be involved in the company's decision-making. (IDS, 1990:3)

With the first point, employees benefit from the company's prosperity as shareholders. Furthermore, employees do not really stand to lose anything from participating in either a profit sharing or share option scheme. An

approved profit sharing scheme effectively provides employees with `free shares` in the company while the rewards gained from investing monthly in SAYE schemes carry no risk`. (IDS, 1995:1)

Financial participation schemes can be linked, albeit in some cases indirectly, to an increase in the employees' influence on the company's decision-making either through the employee becoming a shareholder

Thus, in addition to benefiting from the company's prosperity as shareholders, the employees may also have the opportunity to voice their opinions as shareholders' meetings. (IDS, 1995:1)

or due to the employers' desire to use the knowledge and skills of the employee to best advantage particularly in the area of local business decision-making.

Research on financial participation schemes concentrates mainly on whether Government and employers' reasons for introducing schemes are realised in practice. The tone of the research suggests that employees are treated as an instrument through which Government and employers improve economic and industrial relations performance rather than whether they are beneficiaries in their own right.

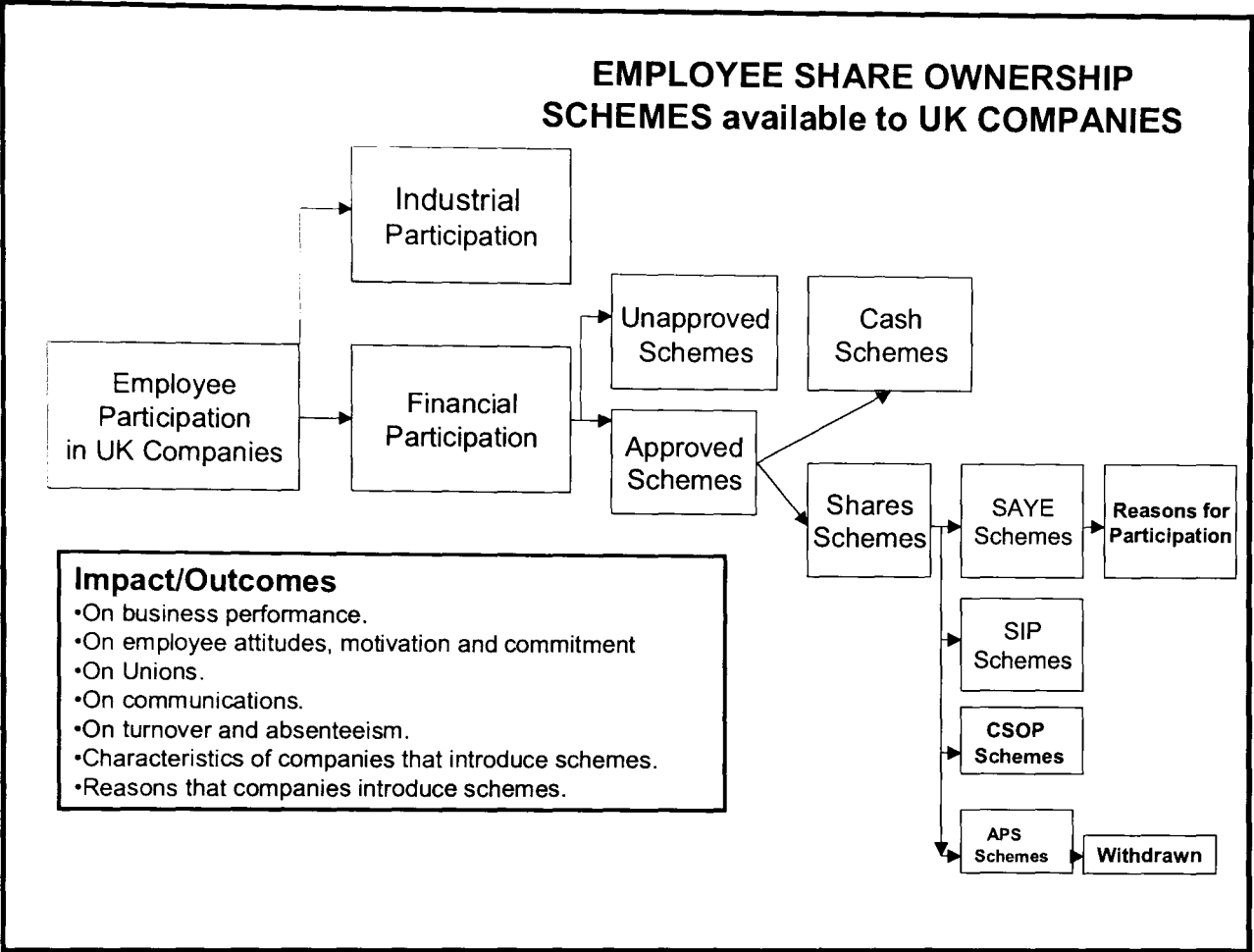
### **3.4 THE OUTCOMES/IMPACT OF FINANCIAL PARTICIPATION.**

Research on financial participation schemes covers a wide range of impacts/outcomes, which are shown in figure 3.1. Each impact/outcome is examined in turn in sections 3.4.1 to 3.4.6.

#### **3.4.1 The impact on business performance.**

There are differences of opinion on whether financial participation and performance are positively linked. Bell and Hanson (1989, 57-68) (see also Hanson and Watson, 1990) compared the business performance ratios of

113 companies that had profit sharing with 301 companies that did not. They concluded that ‘the economic performance of profit sharing companies taken as a group was superior by a significant degree to that of non-profit sharers as a group in terms of profitability, growth and investor return’.



**FIGURE 3.1**

**Employee share ownership schemes.**

They also noted in the section on performance ranking that ‘for all the profitability and growth ratios, more than half the profit sharing companies were in the top two quartiles in every year, and more than half of the non-profit sharers were in the bottom two’. However when faced with the question ‘why this difference?’ Bell and Hanson did recognise that ‘profit sharing companies must possess certain other characteristics, or have some other characteristics more strongly developed than in non-profit sharers, that accounted for, or contributed to their greater success’. They answer this ‘why’ question by concluding that ‘we believe that profit sharing is normally a

consequence of the participative style set by top management in a company; and that it is this management style, with profit sharing as one of the keys to generating commitment to the firm's success, that produces the handsome return for shareholders, managers and employees alike that is demonstrated in our findings`.

Richardson and Nejad (1986:247-248) compared share price movements of a set of companies, which had introduced financial participation schemes with those of a control group, which had not. They concluded that `there was a clear and statistically significant association between share price movements and the use of financial participation. ...Our results remain consistent with the proposition that financial participation has led on average to a significant improvement in company performance`.

Like Bell and Hanson, Richardson and Nejad asked the question `why the association?`. They concluded, also like Bell and Hanson, that `a deep seated and genuine commitment to financial participation on the part of management may yield especially powerful results`.

Freeman (2001:26) in a study that analysed the economic performance of 299 London Stock Exchange listed companies that responded to a mail survey concluded `and yet our evidence, while imperfect, shows that organisations in which employees have a financial stake do perform better`. Poole and Jenkins (1990:95) in a survey for the Department of Employment concluded `there is almost certainly a positive relationship between company profitability and whether or not a firm had adopted profit sharing schemes. However, there remains considerable doubt about the direction of this relationship`.

Capital Strategies (2001:1) an independent corporate finance house, has compiled a UK Employee Ownership Index (EOI) (see also Liontrust, 1999:16-17) that measures the relative share price performance of UK quoted companies where employees (other than directors) own at least 10% of the company's shares. They concluded that companies in the index outperform all the major indices over the long term. An investment in 1992 of £100 in the companies that made up the EOI would now (January 2001) be worth £637, while the same investment in the FTSE All-Share Index would be worth £243.

A contrary view was given by Blanchflower and Oswald (1987:16) who reviewed the literature on profit sharing and concluded that 'our examination of the evidence makes us believe that there is little to be said for the view that, for employment reasons, the Government should do more to encourage employee share ownership schemes. The major studies in the UK and abroad have produced no evidence that such schemes influence employment'.

Blanchflower and Oswald (1988:728) using the WIRS data from 1984 also concluded 'we have not found evidence, at conventional confidence levels, that establishments with profit related pay have superior financial performance'.

Pendleton (1997:109) looking at the WIRS 3 data of 1990 continued the note of uncertainty about the link of performance and financial participation by saying 'there is a positive but weak association between presence of financial participation schemes and better than average performance but the meaning of this association is unclear'.

In the USA, a similar debate has occurred on whether financial participation plans improved company performance. The debate has been largely around the use of Employee Stock Ownership Plans (ESOPs), which became popular in the 1980s. Like the UK, the debate had authors that supported the link between companies' performance and the presence of an ESOP and those that saw no link. (Conte and Svejnar, 1990; Hanford and Grasso, 1991; Livingston and Henry, 1980; Marsh and McAllister, 1981; Park and Song, 1995; Rosen and Quarrey, 1987; Weitzman and Kruse, 1990)

The United States General Accounting Office (US GAO, 1987:3) reviewed a sample of 111 firms establishing ESOPs during their 1976-1979 tax periods and a comparison group of firms without ESOPs. They concluded `the analysis generally fails to substantiate assertions that ESOPs improve profitability and productivity..... GAO did not find evidence that ESOPs improve corporate economic performance`. The GAO also examined a number of HR factors alongside the presence of ESOPs to establish if performance improved. They concluded that employee participation did affect productivity saying `those ESOP firms in which non-management employees have a role in making corporate decisions through work groups or committees showed more improvement in our measure of productivity than firms without such participation`. A similar deduction was drawn by Jones and Pliskin (1991:59-60) who concluded `the available evidence is strongly suggestive that for employee ownership schemes to have a strong positive impact they need to be accompanied by provision for worker participation in decision-making`. (See also Poole and Jenkins, 1990:57)

The most comprehensive European paper (see also O'Kelly, 2002; Poutsma et al., 1999; Poutsma et al., 2003) on the subject is the 1991 PEPPER report. (Promotion of Employee Participation in Profits and Enterprise Results) It distinguished between the incentive effect of the different types of scheme concluding 'the experience to date nevertheless suggests that cash-based schemes may have had more significant incentive effects than share-based schemes. ... In some surveys, cash-based profit sharing was by far the most popular scheme, while the objective expected from deferred profit sharing and employee share-ownership, of increasing workers' involvement as shareholders and their greater identification with the interests of their enterprise, has in many cases not been attained'. (Uvalic 1991:187)

PEPPER II (1996:Executive Summary) giving an overview of the ways that financial participation has been promoted since the 1991 report was strongly positive stating 'the consistency of the findings of the incentive effect of schemes on profitability is remarkable. In all cases profit sharing is associated with higher productivity levels no matter what methods, model specification and data are used'.

The European Foundation for the Improvement of Living and Working Conditions survey (2002b:1) came to a similar conclusion stating that 'evidence suggests that there is an increase in productivity when employee share ownership is combined with other forms of employee participation in decision-making'. (See also Poole, 1988b:28)



### **3.4.2 Impact on employees' attitudes, motivation and commitment.**

The literature, although not unanimous on its views about the impact of financial participation on attitudes, typically sees the influence as neutral to positive.

Bell and Hanson (1984:28) in their survey of twelve major companies in the UK on employees' attitudes to profit sharing concluded that 'this suggests that profit sharing does significantly improve employee attitudes, and employees' views of their company'.

Fogarty and White (1988:81-82) continued this positive line when they said 'one of the clearest findings of the study is that share schemes do foster a sense of involvement or partnership. These changes of attitude not only strengthen commitment to the principle of share schemes, but also, potentially, help to develop more positive relations between employees and the company'.

Poole and Jenkins (1988a:3) agreed concluding that 'according to employees [profit sharing and share ownership] almost certainly effected a series of worthwhile but modest improvements in attitudes and work performance'.

Poole and Jenkins (1990:96) thought that the employees' views about the company did play a part in influencing attitudes when they concluded 'attitudes to schemes for profit sharing and share ownership were found to be interlinked with positive views on the firm itself. In short, the strategy of improving the climate of management – employee relations by means of economic democracy would appear to be very soundly based and it is an important conclusion of our study as a whole'.

Dewe et al (1988,19) conducted a survey in a firm before and after it had introduced a SAYE scheme. They concluded that 'workers who feel a strong sense of commitment to the firm are no more likely to want to take part in the scheme than those who do not'. They also concluded that the employees' views about the scheme itself dominated, namely 'workers favour joining when they feel favourably inclined towards share option schemes in general, irrespective of whether they are favourably disposed to the firm. These points meant that there was no association between a positive attitude of the employee to the company and the decision to join the scheme'. Klein (1988:637) took a contrary view based on work on ESOP companies stating 'the correlation ... suggests a close relation between an individual's general satisfaction with the company and satisfaction with the ESOP'.

Dunn et al (1991:14) revisited the same firm and reinvestigated employees' attitudes (both those that had joined the scheme and those that had not) one year after it had been in operation. They concluded that 'the scheme at least in its first year of operation, had virtually no effect on attitudes. If this is correct, its hard to see how it could have had an effect on the behaviour of the employees and any significant advantage to the firm'.

Nichols and O'Connell Davidson (1992:112) surveyed over 400 employees in two privatised utilities. They found no effect on the attitudes of employees who had participated in share ownership schemes saying 'the supposition that any differences thrown up by a comparison of the attitudes of those who participated in share schemes and those who did not was a function of 'participation' or 'the lack of it', is unwarranted'. Blanchflower and

Oswald (1988:727) agreed when they said `there is little indication of a correlation between employment behaviour and the existence of a sharing scheme`.

Casson (2000:81) continued in a similar vein but saw the importance of linking financial participation to other types of employee participation when he said `the evidence on employee share ownership and attitude change also indicates that share ownership per se is ineffective in changing attitudes of employees. Rather it is necessary to combine share ownership with mechanisms that allow employees to participate in company decision-making`. (See also Kelly and Kelly, 1990: 25-48; Orlitzky and Rynes, 2001:75)

Studies in other countries especially the USA concluded with opinions that were neutral (no effect) to guardedly positive such as `the survey results support the theory that an ESOP can improve employee motivation and output` (Marsh and McAllister, 1981:619). (See also Goldstein, 1978; Keef, 1998; Long, 1982)

Kruse and Blasi (1997:143) summed up the literature when they said `employee ownership does not magically and automatically improve employee attitudes and behaviour whenever it is implemented. While there are a number of findings that employee attitudes and behaviour are either improved or unaffected by employee ownership, it is rare to find worse attitudes or behaviour under employee ownership`.

Ramsay et al (1990:183) (see also French and Rosenstein, 1984: 861-863) suggested the `heart` of why employees are likely to be influenced by financial participation in share schemes when they said:

Employee share schemes are thought to possess valuable transformative properties and unlike other participative approaches, the key to this transformation rests in ownership and its presumed effects upon employee orientations and attitudes, in turn leading to increased productive efficiency and work performance. The central plank that links shareholder employees with productive efficiency and performance, concerns attitude; employee shareholders assume attitudes and opinions thought congruent with and directly related to share ownership, which in turn generates beneficial effects for the employing organisation, these ultimately rewarding the shareholders/employees in a virtuous circuit of mutual gain.

However they drew attention (Ramsay et al., 1990:200) to the many delicate stages that must be achieved for the suggested effect to happen when they went on to say `the chain of effects runs from idea to scheme, to employee opinion thereof, to nature and degree of effect of this on outlook, to effects on actual employee behaviour, to the effect of change in behaviour on company performance`.

### **3.4.3 Financial participation and unions.**

The PEPPER report (Uvalic 1991:175) summarised the trade union position by saying that they were opposed to such schemes because they increased income inequality and they were unhappy that such schemes were non-negotiable. In addition, the point was made that trade unions thought that employees investing in share schemes were `putting too many eggs in the company basket`. (Baddon et al., 1989:248) Namely, that the employees' financial security was too dependent on the success (or otherwise) of the company for whom they worked.

Generally, there is agreement in the literature that financial participation has little effect on the representative role of unions. Baddon et al (1989:249-250) concluded that:

The overwhelming evidence of our case studies was that financial participation schemes are operated quite independently of the normal run of industrial relations ... and although the union representatives may have been at best neutral and occasionally antagonistic or unsympathetic, it seems generally to have been accepted that it was for management to decide to introduce a scheme and to select the kind of scheme it wanted. The unions stayed aloof from the process. The case study companies had a strong commitment to consultative machinery.... despite this, there was little sign that the regular machinery had any significant involvement with financial participation.

They go on to explain this position by giving the example of one case study company `where the share and SAYE schemes were formally separate from other industrial relations procedures, and in the hands of managers who were not personnel or industrial relations specialists`. Baddon et al (1989:250) ended by saying `the conclusion must be that collective bargaining does not touch directly on the profit sharing and share ownership territory to any significant degree`.

Poole and Jenkins (1990:50) agreed with the direction of Baddon et al's view expressing it as `whereas the introduction of schemes may well produce a greater identification with the company's goals, it is unlikely that union activities will be completely undermined by profit sharing`.

The European Foundation for the Improvement of Living Conditions and Working Conditions (2002a:1) analysed financial participation in some 2500 EU companies with more than 200 employees and concluded that

`there is no evidence to show that forms of financial participation weaken the representative role of trade unions or works councils within companies`.

Pendleton (1997:111) is more positive following his analysis of the Workplace Industrial Relations Survey. (WIRS 3) He concluded that `workplaces with share schemes are clearly more `unionate` than non-scheme workplaces`.

The TUC in its own paper entitled `share ownership, productivity and company performance` (TUC, 1999:8) stated `that unions have also negotiated pragmatically on the role of employee share schemes in the overall pay package. The general policy stance might be described as “engaged scepticism” with the objective of delivering the best possible outcome for members`. Baddon et al (1989:248) had a similar view when they said `the general sense of union representative reaction, then, is not dissimilar from that of the union movement as a whole: neutrality at best, a bored hostility at worst, but even the latter not taking on a high profile such as to make the operation of any scheme difficult for management`.

#### **3.4.4 Financial participation and communications.**

Communications is a common theme in the literature, with general agreement that financial participation has a beneficial effect on communications. Fogarty and White (1988:23 and 41) go into considerable detail via an employee survey on managements’ and employees’ views on communications in four case study companies who were using ADST share schemes. They concluded that:

If share scheme are, to a substantial extent, about the transmission of values and attitudes to employees, then it is evident that communications form an essential element of practice. In addition

because of the legal and taxation complexities of share schemes there may be considerable barriers of comprehension to be overcome before share schemes can begin to have an impact on employees.

The survey of employees concluded that `the clear majority [of employees] in every [case study] company felt that further efforts were needed to explain the share scheme`.

Freeman (2001:26) found that `companies with share ownership or profit sharing scheme involving ordinary employees were more likely to engage in consultation and communication with their employees`.

McNabb and Whitfield (1998:181) similarly concluded that `the impact of downward communication schemes is especially large in organisations, which operate employee share ownership schemes. One possible explanation is that managers in organisations with employee share ownership are more attentive to the way they communicate with their workforce, who may also be more demanding in the information they want to receive`. The suggestion being made here is that employees owning shares leads to employees following the share price, which leads to employees asking their manager as to why the price is fluctuating. Hence business communications improve to satisfy this need.

The European Foundation for the Improvement of Living and Working Conditions (2002a:1) identified specific aspects of communications which improved when they stated `companies with either broad-based or narrow-based share ownership schemes tend to communicate information on corporate strategy and financial issues more than companies without any scheme`.



Whereas financial participation has a positive impact on communications, the nature of these communications has become increasingly regulated. The 1986 Financial Services Act requires only authorised advisers to be used if ‘investment advice is given to persons in their capacity as “investors or potential investors” and relates to the merits of buying, selling, subscribing for or underwriting investments’. (Rider et al., 1989:100-101)

Although some aspects of employee share schemes are exempt from the FSA authorisation requirement, advice is not one of them: ‘the exemption does not apply to the provision of advice in connection with such schemes [employee share schemes].’ (Schedule 1, paragraph 20 - Rider et al., 1997:148) Hence company line managers (all of whom are not FSA authorised) must be careful that the advice that they give to their staff on the company’s Sharesave scheme is not considered ‘advice on buying, selling, subscribing for or underwriting investments’. Advice on the ‘mechanics’ of the scheme is acceptable but encouragement to participate in the scheme could be considered as advice to ‘invest in shares’.

#### **3.4.5 Financial participation and turnover/absenteeism.**

Turnover and absenteeism are two other aspects of industrial relations where the literature is generally of the view that financial participation has a beneficial effect. Festing et al (1999:319) saw positive advantages from an HR perspective when they concluded from their four European countries study that:

The outcomes of financial participation show that employee share ownership and profit sharing cannot only increase financial performance but lead to efficient human resource management. As

profit sharing does not only increase profits and decrease absenteeism, but also decreases staff turnover, it seems both management and workforce gain.

They did, however, also find that employee share ownership, whilst reducing absenteeism, was associated with higher staff turnover, which they were unable to explain.

Wilson et al (1990:207) also looked at the HR aspects when they investigated financial participation and quit rates in 52 UK engineering firms. They concluded that `firms that had adopted profit sharing and/or share ownership schemes exhibited significantly lower quit rates`.

Marsh and McAllister (1981:619) looking from a USA perspective saw general HR improvements when they said `a large number of the companies have experienced improvements in employee turnover, quality of work, grievances, absenteeism, and tardiness since the adoption of an ESOP`.

However, Poole and Jenkins (1990:44) disagreed with most authors when they concluded `profit sharing and share-ownership schemes do not necessarily have far reaching implications for either labour turnover or absenteeism`.

Pendleton (1997:112) also believed that it was `difficult to interpret` the linkage of labour turnover figures to share schemes when he said `the lower levels of turnover in share scheme workplaces may be as much an outcome of financial participation as an antecedent of its introduction`.

#### **3.4.6. Financial participation and general HR practices.**

On the topic of the links of financial participation and the `building blocks`, which make a good industrial relations climate in a company, the literature is reasonably consistent with its conclusions. (Bhargava,

1994:1044; Poole, 1987) These are well summarised in the European Foundation for the Improvement of Living Conditions survey (2002a:1 and 2002b:1) which state:

Companies with arrangements for employee involvement (representative and/or direct participation) are more likely to have forms of financial participation.

There is a clear link between the amount of and investment in training provided for employees and the presence of share ownership schemes, in particular broad-based schemes.

There is a strong relationship between broadly based financial participation and team-based work-structures.

In summarising the effects of financial participation in the area of HR practices, a theme that is common throughout the financial participation literature, is that there are many interactive effects with other industrial relations practices. Typically, what is being said is that companies that provide a financial stake are also more likely to provide extensive participation in decision-making, consultation and communications with employees. These provisions are then likely to create a positive industrial relations climate, which will be of benefit to both employees and managements. (Poole and Jenkins, 1990:96)

### **3.5 CHARACTERISTICS OF COMPANIES THAT INTRODUCE SCHEMES.**

This section looks at the research that has been undertaken on the characteristics of companies that introduce financial participation schemes. This is further refined into which sectors typically introduce schemes and what are given as the reasons why companies introduce such schemes.

### **3.5.1 Company characteristics.**

Poole and Whitfield (1994:218) (see also Millard et al., 1992; Pendleton, 1997:108) using the 1990 WIRS data concluded that for employee share ownership schemes 'employment size [larger] is a strong and positive determinant of whether a workplace had such a scheme, as are UK ownership, being part of a larger organisation and product market domination. Workplace age (older), a low proportion of manual workers and a strong union presence are also generally positive factors in this respect'.

Millward et al (2000:214) using the WIRS data over the period 1984 to 1998 had a similar view showing that both profit sharing and employee share ownership schemes were more likely in large sized companies especially over 10,000 employees. The Inland Revenue (2004f) confirmed this point by showing that 91% of FTSE 100 listed companies and 70% of FTSE 250 listed companies had at least one type of all-employee share scheme.

Pendleton et al (2002:56) gave a similar perspective from a European point of view but also added that stock market listing (in the case of share ownership) was an important factor. 'This finding is unsurprising since market listing provides liquidity for employee shares'.

### **3.5.2 Sectors.**

For profit sharing arrangements, Millard et al (1992:264) identified that between 1984 and 1990 'there were increases in most but not all individual industries: those with the most dramatic rises were engineering, retail distribution and financial services'.

Poole and Whitfield (1994:216) identified 'the two industries with the largest propensity for SAYE schemes are wholesale/retail and banking,

finance and insurance`. Reilly et al (2001:15) concurred saying `By sector, there has been a higher take up of all schemes in the banking and insurance companies and employee share schemes in the privatised public utilities. The wholesale/retail and communication sectors are second to finance in their use of share schemes`. (See also Fogarty and White, 1988; Smith, 1993:153)

ProShare (1998:1) gave the highest take up of Sharesave schemes to the utility sector first followed by the consumer goods and financial sectors.

Millard et al (2000:217-218) explained that for workplaces with both profit sharing and an employee ownership schemes `in 1984, around half of these workplaces were located in the banking, finance and insurance industries, but by 1998 these industries accounted for only one fifth. Instead, between 1984 and 1998, there was a substantial increase in the prominence of workplaces engaged in distribution, hotels and catering`.

### **3.5.3 The reasons that companies introduce schemes.**

Smith (1986:382) in a telephone and interview survey for the Department of Employment gave the following objectives as the reasons for introducing Approved Profit Sharing or SAYE schemes: `(i) to make employees feel they are part of the company, (ii) to increase employees' sense of commitment to the company and (iii) to make employees' more profit conscious`. Smith (ibid) said that the following quote summed up the responses that she received:

The feeling of the board was to better the terms of our employees. We wanted to make people feel more involved and get away from what used to be a dirty word, `profit`. It was just a natural development in a caring company.

Ramsay et al (1990:197) raised similar types of management objectives for schemes when they said 'the prominent objectives expressed by management for financial participation [is] a change of attitudes entailing greater loyalty, commitment and awareness of the need for management policies'.

Van Den Bulcke (2002:68) surveyed 500 European companies and identified the three main reasons that employers said that they implemented financial participation schemes. These reasons were 'involvement' (increasing the employees' identification and understanding of the business), 'performance/profitability' (working more effectively) and 'responsibility/entrepreneurship' (encouraging employees to take a greater role in the management of the company).

ProShare (1999:3 and 10) identified the four main objectives for introducing share schemes as '(i) to provide employees with a sense of involvement in the business, (ii) to share the rewards of business success with employees, (iii) to link employee and shareholder interests and (iv) to provide an incentive to work effectively'. They summarised this by saying '83% of companies [in the survey] reported that share schemes met or exceeded company objectives'.

Baddon et al (1989:246) concluded that their case study companies had a variety of reasons for having financial participation schemes. The main one was to reinforce employees' loyalty and commitment, although 'there did not appear to be any systematic attempt to measure the benefits of the scheme from the company's point of view'. 'From the point of view of managements who had introduced such schemes, the evidence on the

extent to which the objectives were being met was somewhat mixed'. They go on to say that for one case study company 'these objectives were all expressed in grandiose, often ideological terms. As such it was hard to measure progress in meeting the objectives'. (Baddon et al., 1989:171, 268) Typically, the management objectives for the schemes were not borne out by the reasons for which employees said they took part. 'For the broad mass of workers, the schemes did not do a great deal for loyalty and commitment to the company'. (Baddon et al., 1989:268) 'There was a definite inclination [by employees] towards material benefits offered by the possibility of financial reward at little risk as the main attraction rather than more general concepts of ownership and involvement'. (Baddon et al., 1989:208)

'In contradistinction to management objectives, employee participation in SAYE schemes tended to be based more on financial opportunism than on company identification. Participants evaluate schemes in terms of material benefits and freedom from risk, rather than as an ideological expression of company attachment'. (Ramsay et al., 1990:201)

Nichols and O'Connell Davidson (1992:110) gave a similar perspective when they said 'the idea that share ownership gets rid of 'us and them' feelings between management and workers was rejected by 70% of those who were not employee share owners but by 85% of those who did own company shares'.

The characteristics of companies that introduce financial participation schemes form a reasonably consistent picture with 'employment size' as a strong determinant along with UK ownership. In the case of sector characteristics, the picture is more confusing possibly because at different

times different sectors have energetically introduced schemes. The Finance and retail sectors, however, are regularly mentioned as prominent sectors for using financial schemes.

The reasons given in the research literature as to why companies introduce schemes are reasonably consistent. Key themes centre on `increasing the involvement of the employee in the business` and `sharing the rewards of the business` especially by linking the interests of the employee with those of the shareholder. Typically companies reported that share schemes met their objectives.

### **3.6 RESEARCH ON SHARESAVE SCHEMES.**

There are several books and papers on a major study done by Baddon, Hunter, Hyman, Leopold and Ramsay (Baddon et al., 1989) covering SAYE schemes in a number of case study companies. The survey, called `the Glasgow study` is reported in a book, `People's Capitalism?` but it also spawned a number of important articles led by other team members. (Hyman et al., 1989 and Ramsay et al., 1990) Pendleton (1991:85-86) provided a comparison of Baddon et al's book and that of Poole and Jenkins (1990) where he concluded `it is fair to say that Baddon et al's study is the better of the two`.

Baddon et al (1989:114) used a case study approach to obtain the views of management, trade union representatives and employees by a questionnaire and interview methodology. Three of the case studies, Goodbake (Scotcake and Breadline subsidiaries), Norbrew and Thistle operated SAYE schemes.



The main reasons for saving to the SAYE scheme was primarily `financial rewards` with the `no risk involved` being the next most commonly expressed view. `An easy way of saving` was typically the third reason given. (Baddon et al., 1989:165-243)

As far as reasons why employees did not take up the scheme, `inability to afford it` was the biggest response followed by `did not know enough about it`. Baddon et al (1989:242-243) concluded in their Thistle case study that `the decision to participate or not was most commonly made on financial grounds and attitudinal factors were not involved in the decision`.

In attitudes to the company, Ramsay et al (1990:201) concluded that `the attitudinal differences between participants and non-participants across a range of criteria have been marginal, and in some instances barely discernible, notwithstanding the different profiles presented by the two groups. Participants tend to be male, white collar, non-union employees, and often medium to long periods of service with their companies`.

Dewe et al (1988:19) drew similar conclusions saying that `Workers who feel a strong sense of commitment to the firm are no more likely to want to take part in the [SAYE] scheme than those who do not`.

Smith (1986:382) contradicted this view saying `companies with just SAYE [schemes] thought that the main advantage of SAYE over APS were that it requires greater commitment from employees and is therefore seen as more likely to result in a higher level of commitment to the company`.

Ramsay et al (1990:201) suggested `pay seems to be a critical factor, influencing not just participation/non-participation, but also directly related savings levels`.

Baddon et al (1989:231) elaborated on the significance of pay when they said 'although the overall rate of participation was increasing [over time], throughout the operation of the SAYE scheme the participation of hourly paid employees had been consistently lower than for that of staff. Factors such as relative levels of disposable income, knowledge and understanding of share ownership, working versus middle-class ideologies and trade union attitudes may have combined to produce particular patterns of participation in voluntary schemes'.

Wright (1986:50) however differs from this view when she said 'my own experience firmly rebuts the argument... that the take up of SAYE schemes is heavily weighted towards white-collar and head office employees'.

Baddon et al (1989:210) suggested that other factors might influence participation when they said 'it is also possible that other factors such as age, length of service, or union membership might also have influenced participation. Although our findings indicated that neither age nor length of service exerted a significant effect, we did find it more common among mature employees with a middle range length of service of eleven to twenty years'.

ProShare (1999:1 and 4) in their 'Impact on Employees' survey provided a number of positive claims for Sharesave schemes. They found that 'employee share schemes are attractive to all employees. The results show that the levels of participation in share schemes [including SAYE schemes] are high amongst all employees regardless of their position within the organisation, their gender or age'. They go on to claim that 'taking part in share schemes shapes employees behaviour and attitude'.

Dewe et al (1988:10 and 12) found that employees saw the good points of their SAYE scheme as 'these days it's right for workers to own part of their company' and 'they make workers feel part of the company'. The main negative point was that 'you have to wait too long before you can make money out of them'. In the follow up article, Dunn et al (1991:15) agreed with this view saying 'the simple fact is that many workers on relatively low incomes are unwilling to make a 5 or 7 year savings commitment because they lack the spare money or are not confident that they will be financially secure throughout the period'.

Peel and Pendlebury (1998:45) looked at employees' financial awareness and the extent to which it changed when they participated in a Sharesave scheme. They concluded 'that it is the more financially aware employees who became members of the company's SAYE scheme and not that membership of the scheme leads to increased levels of employee financial awareness'.

Research on Sharesave schemes, particularly as exemplified by the major study by Baddon et al (1989), provided detailed insights on participating in these schemes. 'Employee characteristics' factors such as pay, age and grade were seen as possible influences on participation as were 'attitudinal motives' such as 'financial reward' and 'no risk involved'. An inability to afford the scheme was the main reason for not participating.

### **3.7 RESEARCH ON 401(K) PLANS.**

In the USA, the most common defined contribution (DC) pension arrangement is the 401(k) plan. (Defined as a 'profit sharing or stock bonus plan that contains a cash-or-deferred-arrangement', Bassett et al., 1998:265)

Although such plans do not have the risk free aspects found with Sharesave schemes, they do provide insights into employees' financial decision-making since the `worker makes the critical decisions. These decisions include whether to participate, how much to contribute, how to invest the plan assets and what to do with the plan assets should one receive them upon switching jobs`. (Bassett et al., 1998:263) Hence the considerable research into these plans does potentially provide understanding, which can be relevant to UK employee share schemes.

`Over the last 20 years, [in the USA] defined contribution pension plans have gradually replaced defined benefit pension plans as the primary privately-sponsored vehicle to provide retirement income. Defined contribution pension plans place the burden of ensuring adequate retirement savings square on the backs of individual employees. However, employers make many decisions about the design of 401(k) plans that can either facilitate or hinder the employees' retirement savings prospects. Although the Government places some limits on how companies can structure their 401(k) plans, employers nonetheless have broad discretion in their design.` (Choi et al., 2002:68)

`The defining characteristics of 401(k) plans are that participation in the plan is voluntary and that the employee as well as the employer can make pre-tax contributions to the plan. These characteristics shift a substantial portion of the burden for providing for retirement to the employee`. (Munnell et al., 2000:3)

`A handful of studies have explored the factors that affect participation and contribution to 401(k) plans. .... Both **employee** and **plan**

**characteristics** are likely to be important determinants of participation and contributions decisions`. (Munnell et al., 2000:7)

The next two sections look at the importance of these two characteristics as participation determinants.

### **3.7.1 Employee characteristics as determinants.**

There is general agreement that income, age and job tenure (length of service) are important characteristics related to the propensity to participate in and save to 401(k) plans. (See Bassett et al. 1998; Holden and VanDerhei, 2001)

`One of the most important determinants of 401(k) participation is income level. Low-income workers face lower tax rates and hence benefit less from the tax-deferred nature of 401(k) plans than high-income workers. Low-income workers are also more likely to be liquidity constrained and therefore have better uses for their funds than retirement saving`. (Bassett et al., 1998:270) `The evidence so far shows that compensation is a major determinant of participation and contribution`. (Huberman et al., 2003:15) Clark and Schieber (1998:88) agreed with this saying `the likelihood of participating in a 401(k) plan increases sharply as earnings rise from \$10,000 to \$50,000` .... which they put down to `of course, workers with higher income may have more discretionary income out of which to save. For these reasons, workers with higher earnings are expected to be more likely to participate in 401(k) plans. (Clark and Schieber, 1998:82)

`Age is another important characteristic, as a worker's stage in the life cycle can be expected to influence the propensity to save`. (Bassett et al., 1998:276) `Older participants tended to contribute a higher percentage of

their salaries to plans than younger participants`. (Holden and VanDerhei, 2001:2) Huberman et al. (2003:11) agreed when they said `older and longer tenured employees are more likely to participate. For an average 18 year old who just starts on her job, each year of advance in age (tenure) is associated with an increase of 0.2% (1%) participation probability. The tax-deferred nature of 401(k) contributions suggests ..... it is more beneficial to contribute early in one's career. But earlier in one's career is when liquidity constraints are likely to reduce the propensity to save for retirement`.

DeGeorge et al. (2004:170) disagreed when they said that `consistent with the notion that as the retirement horizon decreases, risk aversion increases, we find that older workers tend to participate less.` Clark and Schieber (1998:82) saw this as a tailing off of participation near to retirement when they said `considerable information suggests that retirement savings increase with age; however this tends to be a non-linear relationship and savings may actually decline as the actual date of retirement approaches`. The Employee Benefits Research Institute supported this view when they said `job tenure relates to employees knowledge about the plan` concluding that `in terms of age, participation rates rise with age to about 50 and then decline`. (Cited by Munnell et al., 2000:9) Kusko et al. (1998:108) looked at job tenure from the perspective of comparing the behaviour of new hires to that of established employees. They concluded `that the participation rate among new hires in 1989 who left the firm in 1990 was only 6.5%. This suggests that individuals may make decisions about 401(k) participation based in part on their expected longevity at the firm`.

Huberman et al.(2003:11) considered that `females are 6.5% more likely to participate than their male counterparts`. This they put down to two explanations. `One, that women have a stronger preference for saving, perhaps because they typically live longer than men. Two, that the unit of decision is the household, and in many cases women are secondary wage earners whose incomes supplement those of their husbands`. (Huberman et al., 2003:4) In terms of who owns a DC plan, Sunden and Surette (2001:210) concluded that `marital status` as well as gender are influences saying `the results indicate that single women are more likely than single men to have a DC plan. Married women, however, are much less likely than men (or single women) to have a DC plan`.

Authors mention a number of additional employee characteristics as determinants affecting participation in 401(k) plans. Munnell et al. (2000:4) concluded that `the most important factor affecting employees' participation and contribution decision is their planning horizon. Those with planning periods of four years or less are much less likely to provide for their retirement than those who have a more long-term perspective`. They (Munnell et al., 2004:4) go on to conclude that education is an employee characteristic which affects participation when they say `these results are consistent with other studies suggesting employee education can have a major impact on retirement saving`. Bernheim (1998:64) investigated this and concluded that `the results demonstrate that changes in education are strongly related to changes in participation`.

Procrastination by employees to take up the scheme is cited as a reason for non-participation by a number of authors. Choi et al. (2002:70)

raised the finding that 'at any point, employees are likely to do whatever requires the least current effort: employees often follow the path of least resistance. Almost always, the easiest thing to do is nothing whatsoever, a phenomenon that we call passive decision'. Hinz and Turner (1998:32) agreed saying 'more than one-eighth of the women (14%) but fewer men (7%) did not invest [in 401(k) plans] because they had not bothered to do it'.

Madrian and Shea (2001:1150) considered the impact of automatic enrolment on 401(k) savings behaviour. They concluded that 'that 401(k) participation is significantly higher after automatic enrolment is adopted in the study company. [This] supports the contention made in much of this literature that procrastination is an extremely important factor in the widely perceived inadequacy of individual savings for retirement'. Interestingly, Kusko et al. (1998:109) concluded that the opposite effect takes place for committed employees when they said 'the data from firm X also suggests that once a worker participates in a 401(k) plan, he or she is unlikely to stop'.

Hinz and Turner (1998:31) concentrated on 'why don't workers participate?' using a survey of federal government workers covered by a savings plan and asking why workers chose not to contribute to the plan. 'The most common response, given by more than a fourth of men (29%) not contributing and more than a third of women (34%), was that they could not afford to contribute. While for some that response may reflect a liquidity constraint, for others it may reflect a lack of self-control in saving for retirement'. Other reasons were also given. 'Nearly one in six men and women (16%) did not contribute because they did not understand the plan and nearly as many (12% of men and 15% of women) did not invest because



they did not have enough information. 10% of both men and women had not considered contributing to the plan`. (Hinz and Turner, 1998:32)

### **3.7.2 Plan characteristics as determinants.**

`One potential way to increase 401(k) plan participation is for the sponsoring employer to adopt a match rate. An employer providing a match agrees to contribute a certain amount to a worker's 401(k) plan for every dollar that an employee contributes up to a certain percent of the worker's salary`. (Bassett et al. 1998:273)

In general, the literature supports the view that matching increases participation. `The presence of such a match [100% matching] increases participation at all compensation levels, and such inducement is stronger the lower the compensation`. (Huberman et al., 2003:19) `In sum, our limited evidence suggests that employer matching does have a significant impact on both 401(k) participation and contribution rates`. (Choi et al., 2002:94)

Several authors put forward the view that information was an important factor affecting participation in 401(k) plans. Clark and Schieber (1998:84-85) attempted to measure this: `the key to the participation decision is the amount and quality of information provided by the plan sponsor. Workers are more likely to enrol in plans when they understand and feel comfortable about the investment opportunities`. They measured communications activity by considering three levels. Level 1 was the distribution of plan enrolment forms and periodic statements of account balances. Level 2 was the employer providing workers with generic newsletters related to the 401(k) plans. The third level of communications involved sending workers materials specifically tailored to the individual company's 401(k) plan including may be

suggesting appropriate savings levels. They concluded that `increasing the quality of communications significantly increases participation rates`.

Bernheim (1998:64) studied whether low savings levels in 401(k) plans were associated with employees failing to appreciate their financial vulnerabilities, lack of financial decision-making skills and/or lack of seeking guidance and whether employer education programmes would address some or all of these problems. He concluded (ibid) that `most Americans are not making prudent financial decisions. To a large extent, they are unaware of their financial vulnerabilities, and they lack the knowledge, sophistication and/or authoritative guidance required to set them on the right track. The evidence suggests that improvements in economic and financial education and training could go a long way toward encouraging greater saving`.

Bassett et al. (1998:276-278) agreed with the importance of knowledge when they said `education level may be correlated with the propensity to save, as well as with worker knowledge of the plan`. They concluded that `workers with high school diplomas have 10% higher participation rates than those without`. However, Choi et al. (2002:103) did not see education as having a large effect when they concluded `overall, while financial education is important, it does not appear to be a powerful mechanism for encouraging 401(k) retirement savings`.

`Another common 401(k) plan feature is a waiting period before employees become eligible to participate in the plan. Employers adopt eligibility requirements for a variety of reasons, including the fixed costs of administration accounts for newly hired workers with high turnover rates`. (Choi et al., 2002:95-97) They concluded `nobody seems to lose when

shorter waiting periods are adopted, so we see no reason why companies should not be encouraged to allow immediate eligibility for participation in 401(k) savings plans`. Madrian and Shea (2001:1168) were less sure of the impact of reducing the eligibility period. They concluded `interestingly, there is very little difference in the overall participation rates of these two cohorts`. [One cohort had required one year's employment and the other became immediately eligible.]

Finally, the presence of other savings plans being offered by the employer is considered to have a negative effect on participation. Bassett et al. (1998:276) concluded that `participation is also substantially higher when the 401(k) plan is the only retirement plan offered by the employer`.

Some authors use the life cycle theory as a predictor of pension coverage concluding that `if households act as the life cycle theory of saving predicts, initiatives to encourage pension coverage would be unnecessary. Households would save adequately for retirement and there would be no need for public policy to encourage retirement saving`. (Hinz and Turner, 1998:30) A number of factors are considered as causing this lack of adequate saving. Firstly, it is argued that the life cycle model assumes a sophisticated worker, which may not be true for all workers. Secondly, risk aversion is not adequately considered. The contributions to 401(k) plans require workers to `figure out how much to save`. Faced with this, they are likely to undersave, preferring present over future consumption`. Hinz and Turner (1998:30) argue that `rational discounting of future consumption by the probability of being alive at a distant future date reduces the incentive to save`. Thirdly, they argue that since saving for retirement occurs once, there

is no opportunity to learn by doing and correcting mistakes by repetition. Although workers have the opportunity to adjust income by working longer hours and therefore adjust their savings rate as retirement approaches, older workers may find the labour market less flexible to providing opportunities to make such changes.

### **3.8 CRITIQUE OF THE METHODS USED IN THE LITERATURE.**

The financial participation literature in the UK and Europe typically used surveys as the primary data collection method (see Bell and Hanson, 1984; Dewe et al, 1988; Nichols and O'Connell Davidson, 1992; Poole and Jenkins, 1990; ProShare, 1999) or analysed secondary data from, say, the WIRS surveys. (See Culley et al, 1998; Millard et al, 1992; Millard et al, 2000; Pendleton, 1997; Sunil Sen Gupta, 2005)

In terms of the methodology used in 401(k) plan research, the literature typically used data from employee records (e.g. Huberman et al., 2003; Madrian and Shea, 2001) or from a large survey (e.g. Bassett et al., 1998; Munnell et al., 2000) as the basis of their analysis and conclusions.

The wide use of surveys has a number of disadvantages, some of which are identified in the literature (IDS, 1986:6-7). For example, surveys by questionnaire can produce a bias in the employees who reply. Typically, employees who participate in financial participation schemes are more likely to reply to a survey than those who were not interested to take up the scheme in the first place. (Scotcake case study - participant replies 46%; non-participant replies 22% - Baddon et al., 1989:173) Baddon et al (1989:232) saw not only the bias in replies towards participants but also

towards grade when they said ` the responses were skewed towards scheme participation and towards non-manual grades`.

Surveys by questionnaire that give an employee a number of alternatives from which to select his/her answer have the danger that the particular reply that the employee wishes to make is not listed. Surveys are also weak at providing the contextual information that is created by asking supplementary questions to expand on the views that employees give (via interviewing) or that is created by seeing how employees behave and express themselves in everyday life (via participant observation).

There is also an inadequate appreciation that different groups within the employee population might have different views about participation. Although the literature does, in a few cases, look at the views of employee groups, for example staff/manual workers, it does not rigorously investigate the wide range of possible groups. For example, shift, weekend, or part time employees may be groups that have different opinions about financial participation but the literature does not explore their views.

### **3.9 SUMMARY.**

The UK and European financial participation literature concentrates on whether the presence of employee share schemes influences the performance of the organisation and/or employee attitudes. The question underlying the research into Sharesave schemes, for example, is that if organisational performance and/or employee attitudes cannot be shown to improve as a result of the presence of these schemes, why is the Government providing tax inducements for them.

The USA 401(k) plan literature, however, is more focussed on whether employees participate, the adequacy of the savings level that employees contribute to these schemes and consequently whether employees will have accrued sufficient savings when they come to retire. The importance of this question is linked to Government policy, namely if employees do not save sufficiently for retirement, the Government, in later years, may have to provide benefits to support retired employees who have insufficient funds to live.

This review of the financial participation literature suggests that UK research into employee share schemes is limited by not addressing why employees participate or not in such schemes, the question that **is** addressed by the 401(k) plan literature. So the latter's use of investigating employee and plan characteristics as influences on participation in 401(k) plans could be used as an approach in Sharesave scheme research.

Income Data Services (IDS, 2001a:18-21) identifies a wide variation in the take-up of Sharesave schemes by employees but the literature is weak at identifying reasons for this variation.

This literature review also highlights the limitations of current research in not addressing the biases that occur when surveys are used as the data collection method. For example, the views of non-participants are not considered equally with those of participants. Hence, the conclusions drawn in the literature are biased towards the views of employees already participating in the schemes. The reasons for not participating may equally provide important insights into why participation levels in organisations vary widely.

Finally, this review has identified that the methodologies used in researching financial participation are predominantly limited to quantitative approaches. Whether it is by a survey or by the analysis of employee records, the financial participation literature is limited in the extent to which the views of the employee, expressed in the words of the employee, are considered. This limitation suggests that talking to employees via interviewing would add an important dimension by providing insights into what employees, in general, understand of the financial world around them and what, specifically, is the logic underlying the actions that they take on Sharesave schemes. It would potentially add depth to the question of why employees participate or not in such schemes and address the limitation in the financial participation literature, which concentrates on the Government and the employers' reasons for introducing such schemes rather than on employees' reasons for participating in them.

These limitations are addressed by the methodology adopted in this thesis and explained in chapter 5.

This chapter has provided a review of the research into financial participation schemes in the UK, Europe and the USA, identifying limitations in the research. To complete the picture, the Sharesave managers of companies from different sectors were visited to gain an understanding of the practical issues of managing a scheme and what they considered were employees' reasons for participating or not in the scheme. This pilot study is explained in the next chapter.

# Chapter 4.

## The pilot study.

### 4.1 INTRODUCTION.

Robson (1993:164) encouraged the use of a pilot study when he said `there is no complete substitute for involvement with the `real` situation, when the feasibility of what is proposed in terms of time, effort and resources can be assessed`.

In this thesis, a pilot study was undertaken to build on the information provided by the review of the research literature. The objectives of the pilot study were to seek the views of the practitioners of company Sharesave schemes, to add detail into how such schemes operated in practice and their opinions as to why employees took the actions that they did. The pilot study was to inform the research in terms of aiding the construction of a hypothesis of reasons as to why employees did and did not participate in such schemes and to assist develop the methodology that would be used to answer the research question.

Seven companies were visited between August 2001 and October 2001. These companies were (in order) National Grid, Royal Sun Alliance, AstraZeneca, Barclays, WHSmith, British Airways, and BAE Systems. An eighth, British American Tobacco (BAT), was visited in February 2003.

### 4.2 PILOT STUDY METHODOLOGY.

To meet the above objectives, companies were selected from a wide range of sectors and where it was known that a Sharesave scheme was



offered to employees. Companies were approached where I had direct or indirect access to the manager responsible for managing the scheme. A semi-structured interview sheet (see appendix 13.4) was developed to find out the history and objectives of the Sharesave scheme, the process by which the scheme was authorised and launched annually, the basic data on the scheme including the key participation measures over the previous five to ten years and the opinions of the manager as to why employees acted in the way that they did. Once an interview time and date had been arranged, an interview sheet was sent to the manager in advance to enable him/her to collate the information required for the interview visit. The interview typically took 60 to 90 minutes. Following the interview, a write-up of the visit was forwarded to the interviewee for comments and corrections.

#### **4.3 OVERALL IMPRESSIONS OF THE PILOT STUDY COMPANIES.**

All eight companies operated an Inland Revenue approved Sharesave scheme. Except for Barclays and British Airways, all the companies started with a 5 year scheme and added a 3 year scheme when the Government introduced this variation. Barclays was the only company to offer a 7 year scheme and British Airways only operated a 3 year scheme.

The 'objective' statements on why the companies had introduced a Sharesave scheme were similar (see table 11.2) and typically aimed to link employees to the interests of the business and its shareholders. For example:

**Providing employees with the opportunity to invest in the company in a safe/no risk way and share in the future success of the company. (AstraZeneca)**

Seven of the companies used an external bank or building society as a `service provider` to administer their schemes. Barclays used Barclays Sharesave, a division of Barclays plc to administer their scheme.

Except for British Airways, all the companies had introduced a new Sharesave scheme annually. British Airways had issued five schemes since its first scheme in 1987.

Typically, the process for introducing a scheme was for the Board of the company to approve a new scheme just prior to announcing the company's interim or final results. Invitations were sent out to all eligible employees who then had around three weeks to return their acceptance form. Various poster and newsletter communications encouraged employees to participate and informed them of the option price at which shares could be purchased at the end of the savings period. Deductions of the savings from salary were started around two months after acceptance. The last payment to a maturing scheme always finished before the start of payments to a new scheme so that the savings value of the two schemes did not infringe the Inland Revenue's limit. At maturity, instruction forms were sent to the appropriate employees advising them how to exercise their options and how to invest in an ISA if this was an alternative that the company offered.

#### **4.4 PILOT STUDY COMPANIES' SHARESAVE SCHEME PERFORMANCE.**

Table 4.1 shows the key participation measures of the eight pilot study companies' Sharesave schemes over the period that data was provided. Generally, differences in participation % were more significant between

companies than within a company over time. For example, WHSmith had a % participation of around 13% and British Airways 67%. (Difference 54%)

COMPANY	% PARTICIPATION RANGE	% SPLIT BETWEEN SCHEMES	£ SAVED PER EMPLOYEE
NATIONAL GRID	42% to 65% over the period 1997 to 2001	Typically the split between the 3 and 5 year schemes is around 50%:50%	£75(1998) to £111(2001)
ROYAL SUN ALLIANCE	36.5% to 40% over the period 1999 to 2001	Typically 33% for the 3 year scheme and 67% for the 5 year scheme	£50 (2001)
ASTRA ZENECA	50% to 57% over the period 1994 to 2001	3 year schemes rise from 24% to 40% over the period 1996 to 2001	£60 (2001)
BARCLAYS	66% in 2001	3 year schemes rise from 27% to 45 % (1998 -2001)	£36(1998) to £48(2001)
WHSMITH	17% to 9% over the period 1999 to 2004	3 year schemes rise from 54% to 75% over the period 1997 to 2004	£32(1997) to £40( 2004)
BRITISH AIRWAYS	58% in 1993 rising to 67% in 2000	Only 3 year schemes offered	Range is £45 to £55 but savings are capped
BAE SYSTEMS	36% in 1997 rising to 53% in 2000	3 year schemes rise from 31% to 54% over the period 1997 to 2001	Range is £48(1997) to £50(2001) (capped )
BAT	Ranges between 40% in 1998 to 52% in 2002	3 year schemes rise from 47% in 1998 to 56% in 2002	Range is £75 to £110 in the period 1998 - 2002

TABLE 4.1

Pilot study companies’ Sharesave scheme performance.

For the companies where a range was provided, the maximum variation over time within the company was 23% (National Grid 42% to 65%) and the least was 3.5%. (Royal Sun Alliance 36.5% to 40%)

The main significant `within company` trend was the increasing propensity of employees to save to 3 year schemes. The pilot study companies suggested that 3 year schemes are today selected by around

50% of all participants. (WHSmith highest at 75% of employees in 3 year schemes: Royal Sun Alliance lowest at 33%) Two companies, British Airways and BAE Systems, had capped the maximum amount that employees could save per month in order not to exceed the ABI's share dilution limit. Finally, the amount saved per employee had generally risen over the periods shown although as mentioned above, two companies had capped their saving level.

#### **4.5 OPINIONS/COMMENTS OF THE SHARESARE SCHEME MANAGERS.**

Opinions were sought from the Sharesave scheme managers on whether they thought pay, grade, gender, age, or length of service influenced employees' propensity to participate in the scheme. These factors were chosen because the research literature had suggested that these 'characteristics' of employees were influential. (Baddon et al., 1989:207-211)

The opinions of the interviewees were not always consistent. In general, pay, grade and length of service were thought to be significant factors on whether employees participated since they were more likely to lead to the employee having a higher disposable income. Gender was not thought to have any influence and views were split on whether age was significant.

The Sharesave scheme managers were also invited to add any comments over and above the general line of questions posed by the semi-structured interview on other factors that influenced employees to participate in the schemes or that were of interest in the general understanding of how employees reacted to such schemes. This elicited the following wide range of points.

Lapses and cancellations were an issue that was mentioned by a number of managers. Sharesave schemes were cancelled because the employee was unable to continue the savings, were cancelled because the option price of the scheme was 'below water' or lapsed because the employee left the company.

Sharesave scheme managers highlighted that the option price versus the market price of the shares had a strong influence on the actions that employees took. The less sophisticated employees would complete their scheme to maturity and take cash if the market price was below the option price. The more sophisticated employees would cancel a scheme when the market price was well below the option price during the savings period. They would then use the money from the cancelled scheme to fund next year's scheme when the option price was lower. In this way, the employee would continue cancelling each year's scheme until the lowest option priced scheme was reached. Since one of the roles of the Sharesave scheme manager was to predict the number of shares that the scheme would require at maturity, these actions made forecasting difficult to do accurately.

The number of employees saving at the maximum level of £250 per month (although some companies set the level lower than this) was raised as a factor causing fluctuations in the participation levels of Sharesave schemes annually. When an employee reached the maximum allowed savings level, then for the subsequent years s/he might wish to participate but could not until the high-saving scheme had matured and the employee had 'space' to take out another scheme. Hence companies had particular years when a number of these 'on the maximum' employees had maturing schemes in

which case the participation level for that year was high as they took out replacement schemes. In the following years the participation levels fell because the employees on the maximum savings level were unable to participate. It was therefore to be expected that the % participation figure would fluctuate from year to year. To understand the potential impact of this factor, the highest percentage of employees on the maximum (of all the pilot study companies that had the data) was National Grid at 14%.

Royal Sun Alliance identified that turnover was a key factor that affected Sharesave scheme participation levels. The nature of their business had changed over the last ten years and `call centre work` had become common. Because this type of work employed people who were likely to leave after short periods of time in the job, participation levels had fallen compared to earlier years. Royal Sun Alliance believed that `I won't be here in 3 years time` was a strong reason for not participating in the Sharesave scheme.

Communications was raised by a number of the managers as having an influence. Although Head Office sent out the invitations and provided posters, the Sharesave scheme managers believed that participation levels were influenced by the quality of communications about the scheme at first line manager level. This was mostly dependent on the enthusiasm with which this manager communicated and `sold` the scheme. If the invitation packs remained in his/her office, `unannounced`, only the most informed and persistent employees would complete an application.

AstraZeneca raised the issue of `education` as a factor that influences participation. The company employed a high percentage of employees with

both degrees and PhDs who showed both a sound knowledge of and `comfort` with investing in shares. The manager believed that the high participation levels in AstraZeneca could be attributed, to some extent, to the high `education` level of their employees.

The action that employees took at maturity was commented upon by many of the Sharesave scheme managers. Most managers reported that a high percentage of employees retained their savings as shares at maturity. Three companies measured this and reported that, where employees exercised their options into shares, 60% to 80% of the shares were still held six months after exercising the options. No company reported any interest by employees to exercise their shareholder rights.

#### **4.6 SUMMARY.**

The pilot study provided evidence on the Sharesave scheme performance data (e.g. % participation and % split between 3 and 5 year schemes) that companies had available and used to monitor progress on their schemes.

The Sharesave scheme managers confirmed that the characteristics of the employee (like pay or grade) were important indicators of which employees were likely to participate although opinions were not always consistent. Communication of the scheme was raised by a number of the managers identifying that this topic had many facets. One facet, for example, was the quality of communications delivered from Head Office namely posters and brochures. A second facet was the enthusiasm with which the scheme was `sold` at first line manager level.

A number of new aspects of the scheme were mentioned in the pilot study, which added context to the research but also might be an influence on participation. For example, the pilot study companies took the ABI's share dilution limits very seriously. This caused, on occasions, 'capping' of the permitted savings level. Also it was clear that employees cancelled the scheme part way through for reasons other than leaving the company.

A diverse picture of reasons influencing participation was revealed by the pilot study (e.g. education, turnover, number of employees saving at the maximum) indicating the breadth of the subject. However on other aspects, for example the objectives of the scheme and the process by which the scheme was authorised and introduced annually, the pilot study companies showed a very similar and familiar pattern.

The points raised by the pilot study are used in the next chapter to develop the model against which the research question will be answered.



# Chapter 5.

## The methodology.

### 5.1 INTRODUCTION.

This chapter describes the research question that is being asked in this thesis and constructs a model of possible answers to the question based on the review of the research literature and the pilot study. A case study approach using mixed quantitative and qualitative methods is developed driven by the demands of addressing the model. In addition, a critical review of the research methods in the financial participation literature is influential in the overall research design that is selected.

The quantitative analysis of element 1 of the model is used to select the employees for interview in the qualitative stage. The chapter ends with an explanation on how the methodology was operationalised and the credibility of the findings was addressed.

### 5.2 THE RESEARCH QUESTION.

Sharesave schemes are the best no-risk financial offer that employees will see in their lifetime. Yet, according to Income Data Services (IDS, 2001a:18-21), participation in these schemes ranges from 8% to 85% of eligible employees. (9% to 75% in IDS, 1995; 20% to 85% in IDS, 1998; 13% to 74% in IDS, 1999a; 12% to 75% in IDS, 2005)

## Why?

This is the research question, namely to identify the factors which influence **`why employees participate or not in their company's Sharesave scheme`**.

But the assumption behind this question is not neutral. The question being asked is not `why is there this range?` The assumption behind the question is `why is the take up as low as 8%?` bearing in mind the no-risk nature of the scheme. This research is looking to identify the factors that influence employees to reject such a financial opportunity as well as the factors that influence employees to take up the scheme. In this way, the research aims to give an explanation as to why some companies run at a participation level of 85% and some at 8%.

**Participation** [in a Sharesave scheme] is defined (and measured) in this thesis as the number of employees who accept the invitation to participate in a Sharesave scheme divided by the number of employees who were invited to participate. The level of participation is expressed as a percentage.

In answering the research question, this thesis also aims to understand the extent that Sharesave schemes `engage` employees in general financial matters. Sharesave schemes potentially engage employees in a number of ways. Firstly, employees have to put part of their own personal wealth into the scheme. Employees are therefore likely to want to understand the scheme and its benefits before committing to join it. They will need the

motivation to save and a commitment to continue saving for a minimum of three years before starting the scheme.

Secondly, over the period that employees are required to save, they will obtain insights into the mechanisms that surround the purchase, monitoring and selling of shares. Employees are likely to become interested in the fluctuations of the share price and its value against the option price at which they will eventually be able to purchase shares. Consequently, employees are likely to become interested in the reasons for these fluctuations and hence business information about the company.

Thirdly, at the time of invitation, employees will be faced with a number of decisions, which if they are partly interested in taking up the scheme, may cause them to consider their financial position. Do I understand the invitation document? Do I take out a 3 or 5 year scheme? How much do I save? And at the end of the scheme, do I take cash, shares or invest in an ISA?

Generally, employees are ill equipped to answer most of these questions especially when they are young, at the beginning of their career and considering their first Sharesave scheme invitation. But the engagement created by Sharesave schemes can give employees some basic understanding of the financial world. The opportunity to learn how shares operate, at no risk, may not be an aspect of Sharesave schemes that is immediately obvious to employees but it potentially enhances the employees' understanding of saving, shares and the various avenues open to them to utilise the asset that they have created.

## **5.3 THE MODEL.**

The literature, in its pursuit of answering whether share schemes affect company performance and attitudes suggests a wide range of factors that could affect participation in financial participation schemes generally and Sharesave schemes in particular. To put some structure to these ideas, I constructed a `model`, which addresses the research question and brings together the range of suggestions that have been raised by the literature and pilot study.

### **5.3.1 Factors that influence participation/non-participation.**

Baddon et al (1989:235-236) suggested that `while hard [e.g. pay] variables were all judged to be important motivators for participation, views were more widely scattered for the `soft` variables`. [Attitudinal motivators]

The pilot study Sharesave scheme managers concurred with this view but particularly emphasised `hard variables` such as disposable income as a key reason why employees participated in their Sharesave schemes. Hence pay, grade, length of service, and age were all potential factors affecting participation.

ProShare (1999:1) saw participation as unaffected by these types of factors. `The results show that the level of participation in share schemes are high amongst all employees regardless of their position [grade] with an organisation, their gender or age`.

Fogarty and White (1988:18) raised the issue of whether there might be a difference between male and female employees although the pilot study managers thought that there was no difference due to gender. `Men are more likely to develop a commitment and attachment to the firm, whereas

women develop similar feelings to the group of people that they immediately work with. Hence, according to this view, women would be more difficult to influence through share schemes given the emphasis of these schemes upon a corporate viewpoint`. Ramsay et al (1990:188) (see also Baddon et al., 1989:252) agreed with this saying `the overall impression provided by the case study survey was that participants are more likely to be male than female, though not proportionately so`.

The WHSmith Sharesave scheme manager raised the influence of part time staff on participation rates when he said:

I believe the reasons that the retail sector has lower Sharesave scheme participation rates than, say, the Banking sector, is because they [the Banking sector] pay higher wages and do not employ as many part timers.

Baddon et al (1989:236) suggested certain factors in his questionnaire to employees in his case study companies that might influence participation. These were factors such as `financial rewards` and `no risk involved`. Baddon et al (1989:255 and 253) concluded that `financial aspects appeared to dominate [rather than] the share owning or participative aspects of SAYE`. `Over 90% of participants rated the possible financial gains as very or quite important and over 80% expressed similar views on the virtual absence of risk and the fact that it constituted an easy way to save`. The participative aspects of SAYE such as `stake in the company` or `part in company's future` were regarded as `quite or totally` unimportant.

Klein (1988:637) saw two main factors as influencing employee attitudes to employee ownership schemes when they said `the message that

both company and individual factors shape employee attitudes, implicit in our conceptual model, is bolstered by the research findings`.

As to reasons why employees did not participate in Sharesave schemes, Dunn et al (1991:12) referred to `the fact that the required investment was too long`, `were simply not interested`, and `had insufficient cash`. Baddon et al (1989:208) concluded that the main reason that employees did not participate `was that they could not afford it, a reason that was offered by more than half the non-participating respondents`. Ramsey et al (1990:195) agreed that `the most prominent reason, given by 44%, was an inability to afford involvement, while a further 20% indicated lack of sufficient knowledge` as a reason for not participating.

Ramsay et al (1990:183) suggested the idea that share schemes were introduced `as part of the move by companies to adopt human resource management styles, which emphasize the relationship of the individual employee to the enterprise`. Aspects of this were then expanded by the EFILWC (2002a,1 and 2002b,1) who found that share ownership arrangements encouraged employee involvement and team based structures.

It is clear that there is a relationship between broadly based financial participation and participative work structures. That is particularly true in the case of team-based structures. (EFILWC, 2002b:4)

The importance of corporate communications to participation was a point covered by a number of authors, for example Fogarty and White (1988), Freeman (2001) and McNabb and Whitfield (1998).

The impact of downward communications was especially large in organisations, which operated employee share ownership schemes.

One possible explanation was that managers in organisations with employee share ownership were more attentive to the way they communicate with their workforce, who may also be more demanding in the information they wanted to receive.  
(McNabb and Whitfield, 1998:181)

In the Thistle case study, Baddon (1989:229) raised the point that 'it [SAYE] was seen [by management] as part of a package of conditions of employment which together might be necessary to attract and retain key staff'.

Poole and Whitfield (1994:217)(see also Pendleton, 1997:108) made a link between company characteristics and the presence of Sharesave schemes so company characteristics could be factors influencing participation by employees. Organisation size, product market domination and UK owned were all positively correlated with the presence of Sharesave schemes.

### **5.3.2 Constructing the model.**

The points raised by the literature review and the pilot study, which influenced participation/non-participation in Sharesave schemes, are combined under four headings (called **elements**) as shown in figure 5.1. Not all the factors in the model were researched in this thesis as will be clarified later in this chapter.

**Element 1** is called the '**characteristics of the employee**'. This element includes items such as pay, grade, age, gender, turnover and length of service, which were all possible reasons that influenced participation in a Sharesave scheme. Part time/full time is included since it was a point raised by a Sharesave manager. AstraZeneca also suggested education as an

influence on participation since it linked its high participation to the many highly qualified employees especially in the research departments.

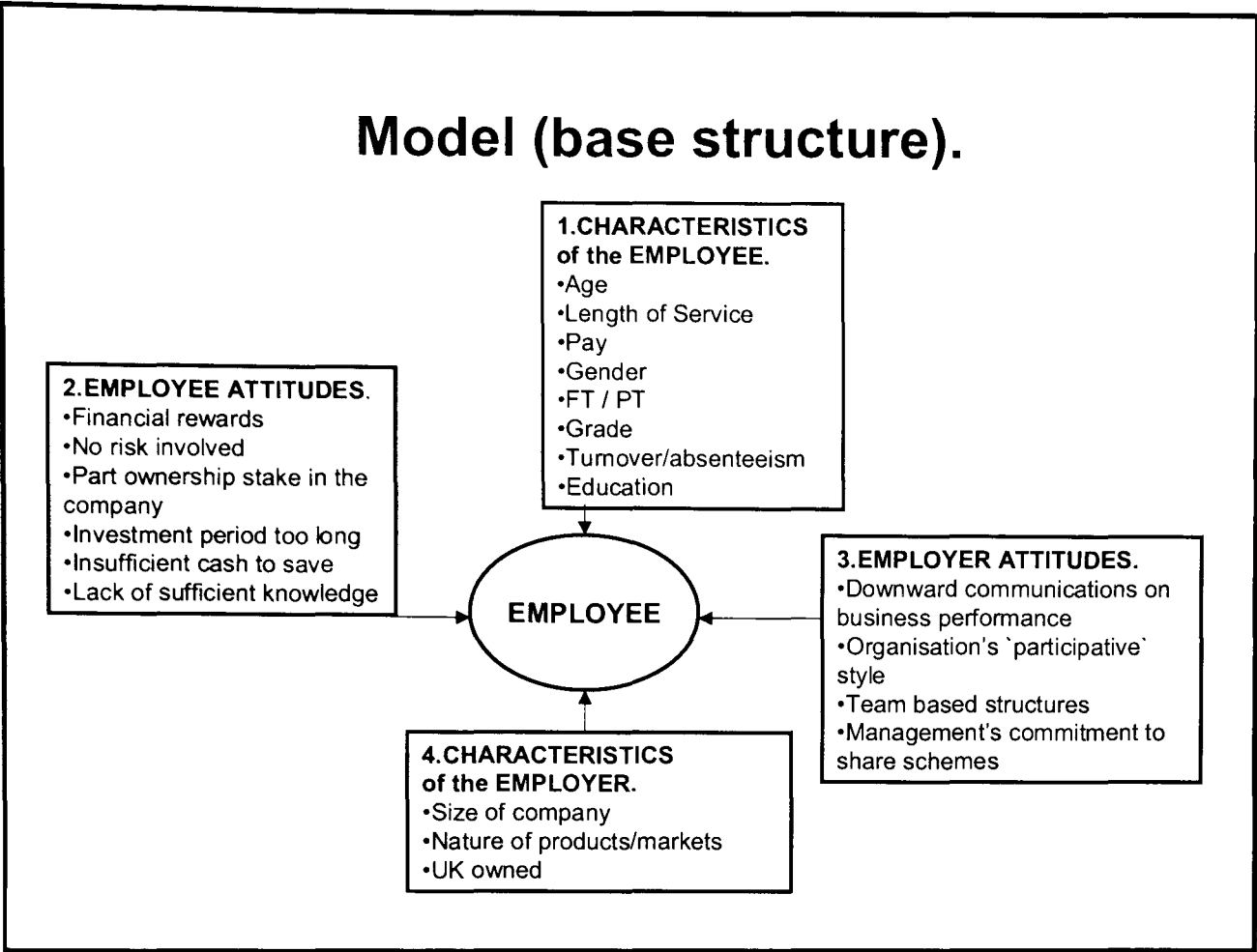


FIGURE 5.1

**Model – base structure.**

**Element 2** is called the **`employee attitudes`**. This gives the type of motives that employees might have for participating (or not) in their Sharesave scheme. **`Financial rewards`** or **`desire for a part ownership stake in the company`** are reasons that the literature gave as to why employees might participate in schemes. **`Lack of cash`** and **`investment period too long`** are reasons that employees gave as to why they did not participate.

**Element 3** is the **`employer attitudes`**. Human resource management practices are linked to the presence of share ownership schemes. These practices may then influence employees to want to participate in the share schemes offered. Team based systems and a participative style of



management might increase employees' loyalty to the company. Better communications could increase employees' knowledge about the performance of the company and encourage them to invest their own money so they benefit from the company's wealth creation success.

The commitment of first line managers or senior managers might persuade employees as to the merits of such schemes to a point where they decide to participate.

**Element 4** is the `**characteristics of the employer**'. Participation in share schemes has been linked to employer characteristics such as company size, product market domination and UK owned. These characteristics might influence employees to participate in share schemes because they appreciate the benefits that the company's market position, its products and that it is a `national` company have on its customers and they wish to be a part of this success.

## **5.4 THE RESEARCH METHODOLOGY.**

`Methods of management and business research are closely tied to different visions of how organizational reality should be studied. Methods are not simply neutral tools: they are linked to the ways in which social scientists envision the connection between different viewpoints about the nature of social reality and how it should be examined`. (Bryman and Bell, 2003:4-7) Saunders et al. (2000:87) explained this by `raising an important question concerning the design of the research project. This is whether your research should use a deductive approach, where you develop a theory and hypothesis and design a research strategy to test the hypothesis or the inductive approach where you would collect data and develop theory as a

result of your data analysis`. `Deduction begins with a universal view of a situation and works back to the particulars; in contrast, induction moves from fragmentary details to a connected view of a situation`. (Gray, 2004:6) He continued with a description of the deductive process as `selecting a theory or set of theories most appropriate to the subject under investigation, produce a testable proposition (hypothesis) about the relationship between two or more concepts, specify what the researcher must do to measure a concept (operationalise), compare observable data with the theory and accept or reject the hypothesis from the outcomes`. Gray (2004:6) described the inductive process as `plans are made for data collection, after which the data are analysed to see if any patterns emerge that suggest relationships between variables. From these observations it may be possible to construct generalizations, relationships and even theories`.

The connection of research to theory is not always apparent, a point which Bryman and Bell (2003:9) consider wrong as a reason to dismiss research `that has no obvious connections with theory`. `It would be inaccurate to brand as naïve empiricism the numerous studies in which the publications-as-theory strategy is employed simply because their authors have not been preoccupied with theory. Such research is conditioned by and directed towards research questions that arise out of an interrogation of the literature. ... In many instances, theory is latent or implicit in the literature`. This is a point noted by Sunil Sen Gupta (2005:106) specifically on the financial participation literature when she stated `one of the most noticeable features of the literature on share-ownership and performance is the distinct

lack of a theoretical framework underpinning empirical investigation`. (See also Klein, 1987:319; Rhodes and Steers, 1981:1013)

Saunders et al (2000:91) explained that the research approach adopted should be based on the nature of the research topic. `A topic on which there is a wealth of literature from which you can define a theoretical framework and a hypothesis lends itself more readily to the deductive approach`.

`However the inductive and deductive process are not mutually exclusive` (Gray, 2004:7) and examination of the main points of emphasis between the two approaches (Saunders et al., 2000:91) shows a considerable merging between them.

The differences in the `principle orientation to the role of theory in relation to research` (Bryman and Bell, 2003:12) has led to the distinction of two main research strategies. Firstly a quantitative approach where the emphasis is placed on quantification in the collection and analysis of data and a deductive approach to theory. Or alternatively a qualitative approach where the emphasis is on words with an inductive approach to theory. These two approaches can be considered as `simply denotations of different ways of conducting social investigation and which may be conceived of as being appropriate to different kinds of research question and even capable of being integrated`. (Bryman and Bell, 2003:25)

The research approach in this thesis is essentially deductive since a hypothesis is constructed against which data is collected and the hypothesis verified or amended. However, based on the critique of the methods used in the financial participation literature (section 5.4), it was considered important to talk to employees directly to gain their views `from the perspective of the

people being studied` (Bryman, 1988:61) and to give less weight to the generalisability of the findings. These latter considerations give the thesis a complementary inductive and qualitative emphasis.

In summary, although the tendency of this thesis is deductive, the nature of the methods used give support to Saunders et al (2000:90) when they say `[if] we have conveyed the impression that there are rigid divisions between the two approaches to research, this would be misleading. Not only is it perfectly possible to combine approaches within the same piece of research, but in our experience it is often advantageous to do so`. It is in this vein that this thesis has been prepared with the `prime consideration [being] that of dovetailing the appropriate technique to a particular research question`. (Bryman, 1988:5) The next section gives consideration to combining the two approaches.

## **5.5 COMBINING QUANTITATIVE AND QUALITATIVE METHODS.**

The aim of this research is to understand both the characteristics (element 1 of the model) of eligible employees both those that participate and those that do not participate in the Sharesave scheme and to provide insights into the `rich complexity of social situations` (elements 2, 3, and 4 of the model) that occur when employees engage with Sharesave schemes. These two `insights` are excellently compared in Dey (1993:9) using an example cited from Winter (1991). Dey described Winter's review of a football match under two headings:

**WIMBLEDON 1**

**LIVERPOOL 1**

**There was more  
excitement in the Selhurst  
car park than on the pitch.**

(The excitement in the car park was a car alarm going off.)

Dey (ibid) posed the questions. 'Which do you care more about - the result, or the game? The points or the passion?' In this thesis, I wish to bring both the 'points' and the 'passion' of Sharesave schemes and to compare and contrast both aspects. The use of both quantitative and qualitative methods potentially enables this to be achieved.

Bryman (1988:106) concurred with using a model to drive the decision-making on which method to apply when he said 'the decision over whether to use a quantitative or qualitative approach should be based on 'technical' issues regarding the suitability of a particular method in relation to a particular research problem'. ... If the research problem invites a combined approach there is little to prevent such a strategy'.

'When quantitative and qualitative research are jointly pursued, much more complete accounts of social reality can ensue'. (Bryman 1988:126)

Bryman (1988:128) however makes an important distinction between the use of mixed methods in a research study and the mixing of the research traditions when he said 'most researchers rely primarily on a method associated with one of the two research traditions but buttress their findings with a method associated with the other tradition'.

Bryman (1988:135-137) noted that in combining qualitative and quantitative research, qualitative research could facilitate quantitative research or vice versa. He explained that 'qualitative research may act as a source of hunches or hypotheses to be tested by quantitative research'.

Kahl's work (1953:189) on 'why some working class school boys in the USA aspire to better occupations while others do not' used initial quantitative research to allow a mapping of the issue to be addressed and also provided the basis for the selection of comparison groups for in-depth qualitative interviewing. The interviews were designed to begin where the statistics left off.

The use of quantitative methods on employee characteristics data is rare in the financial participation literature. Baddon et al came closest to analysing employee characteristics when they evaluated levels of pay versus participation (Norbrew and Thistle case studies – Baddon et al., 1989:205-208 and 238-240) and grade versus participation. (Norbrew case study – Baddon et al., 1989:206) These evaluations lacked mathematical rigour and were just 'observing' the way that levels of participation changed with pay levels. In other words, this numerical data was used to support a qualitative explanation rather than a quantitative analysis. Typical of such explanations was 'for both weekly and monthly salaried employees, participation was highest towards the high-pay end of the spectrum, falling away in the middle ranges and for the weekly-paid employees at the lowest paid levels'. (Baddon et al., 1989:205 – Norbrew case study)

In this thesis, the quantitative data leads by providing the 'outline picture' and facilitates the selection of the employees to talk to. The

qualitative data follows and provides the `richness of detail in the picture`.

The only uncertainty about using a quantitative method to assess element 1 of the model was whether the case study companies could supply the data in the detail required.

## **5.6 A CASE STUDY APPROACH IS SELECTED.**

Saunders et al (2000:30) described the research methodology step as detailing the precise way you intend to go about achieving your research objectives and how you justify your choice of method in the light of those objectives. Bechhofer and Paterson (2000:ii) said that you have to make decisions about how the research is carried out and `choose a set of procedures that enables your aims and objectives to be realised in practice`. Bell (1999:introduction) raised the point that the initial question is `what do I need to know and why?`. Only then do you ask `what is the best way to collect information?`. Phillips and Pugh (2000:47-48) distinguished between the intelligence gathering but descriptive `what` questions and the research `why` questions emphasising that the `why` questions go beyond description and require analysis. As Saunders et al (2000:27-28) said `intelligence gathering will play a part in your research but it will not be enough. You should be seeking to explain phenomena, to analyse relationships, to compare what is going on in different settings, to predict outcomes and to generalise`.

They go on to state that `it is a short step from the `why` question to the testing of an existing theory in a new situation or the development of your own theory. This may be expressed as a hypothesis that is to be tested, or

the eventual answer to your research question may be the development or amendment of a theory`.

Robson (1993:167) suggested that the research question had a strong influence on the research strategy chosen and that this strategy can be simply distinguished into three main types, experiments, surveys and case studies. Yin (1994:1) believed that `case studies are the preferred strategy when `how` and `why` questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context`.

Yin (1994:2) explained the breadth of the case study saying `as a research endeavour, the case study contributes uniquely to our knowledge of individual, organizational, social, and political phenomena`. (See also Yin, 1993; Verschuren, 2003:121-139)

Robson (1993:40) defined a case study as a development of detailed, intensive knowledge about a single case or of a small number of related cases. Typical features of a case study are the selection of a single case or a small number of related cases, of a situation, individual or group of interest or concern; studying the case in its context and collecting data via a range of data collection methods including observation, interview and documentary analysis.

Saunders et al (2000:94) thought a case study strategy would be `of particular interest if you wish to gain a rich understanding of the context of the research and the processes being enacted`.

Yin (1994:9) expressed some of the dangers of the case study approach. `As a research endeavour, case studies have been viewed as a



less desirable form of inquiry. They are seen as historically allowing biased views to influence the direction of the findings and conclusions. Every case study investigator must work hard to report all evidence fairly and the common practice of altering case study materials to demonstrate a teaching point should be strictly forbidden in research`.

Generalisability is also a concern with case study research (Yin, 1994:10) in that the researcher can fall into the trap of generalising the conclusions of the research from one or a few case studies. Case study research should not make strong claims for its generalisability. Finally, Yin (1994:10) listed the complaint that case studies result in `massive unreadable documents` although he says that alternative ways can be used to avoid such lengthy narratives.

Robson (1993:42-45) identified that the purpose of the research as well as the strategy is important and he distinguished three purposes namely exploratory, descriptive and explanatory. He linked the case study approach to the `exploratory purpose` and explained this in terms of `finding out what is happening, seeking new insights, asking questions and assessing phenomena in a new light`. He also went on to suggest that the methods used to collect information (or tactics of enquiry) were `linked to particular research strategies` but he cautioned against being too prescriptive about these links and seeing if a wider range of techniques `could also play a part`. Poole and Jenkins (1990:98) saw research at company level as important when they said `certainly our view is that an analysis at the level of the firm is essential for understanding the diverse patterns of development of profit sharing and share ownership`.

Based on the nature of the research question, the emphasis on `why` employees did or did not participate and the importance attached to talking to employees, a case study approach was selected. Baddon et al (1989:121) who were researching share schemes by obtaining the views of management, trade unions and employees concurred with this approach, saying `the impact [of share schemes] on employees, was one which could be tackled only through the case study approach, and was our strongest reason for adopting it`.

## **5.7 THE QUANTITATIVE ANALYSIS LEADS.**

In this thesis, the model (Figure 5.1) drove the methods selected for the data collection.

For element 1 of the model, company records could be a good source of data to identify any links between the employee characteristics listed under this element and participation.

Statistical tests could be applied to this data to assess whether the level of participation was significantly associated with each characteristic. Analysis of this quantitative data would give a picture of how participation changed over the range of each employee characteristic (e.g. over the range of ages of all eligible employees), which could also help select the group of employees from whom to collect the qualitative data.

Operationalising the data collection against the model was the reason that the quantitative analysis of element 1 led the qualitative data collection. There were two reasons for this. At the outset, the first case study company, WHSmith, wished to see if the data that I had requested on the

characteristics of eligible employees in their Sharesave scheme could be made available **before** making the more intrusive intervention of interviewing employees. Secondly, the answer to their question `which employees do you wish to interview?` was likely to be found in the analysis of the data supplied by the case study companies to address element 1 of the model. So for both reasons the quantitative analysis of element 1 led the research allowing the overall picture of `employee characteristics` to be mapped and potentially providing the basis for the selection of the employees to be interviewed.

WHSmith provided a full set of data for all employees eligible to the Sharesave scheme showing eligibility and participation by pay, age, length of service, gender and full time/part time. Non-participation was calculated by subtracting the number of those employees who participated from the number who were eligible.

Working alongside WHSmith when they were extracting the requested quantitative data gave me an insight into the problems and company attitudes associated with data about employees. Firstly, there were several company databases covering various parts of the operation and the data in each did not, typically, agree totally. Hence the Company Secretary's office ran a database on the participants in the various company Sharesave schemes active at any one moment. The numbers in this database did not always agree with the HR database covering the personal details of all the employees. (It was from the HR database that the element 1 data had to be extracted.)

Secondly, there were inaccuracies in the HR database due to errors in the input data. So there were examples of the date of birth of an employee

being input as the starting date of employment resulting in a 'strange' length of service for that employee. For the purposes of the analysis of the quantitative data on participation, the number of these errors was small and did not affect the overall conclusions of the statistical tests. However, it was a learning point that case study companies' employee databases were used as a means of, for example, paying its employees rather than used to analyse 'the behaviour of employees' and act upon this analysis.

Throughout my work with the case study companies, both they and I followed scrupulously the Data Protection Act 1998 and details of individual employees were not made available to me. I typically had the details against an employee code number, which was converted into an employee name only when s/he had agreed with his/her store manager to be interviewed by me.

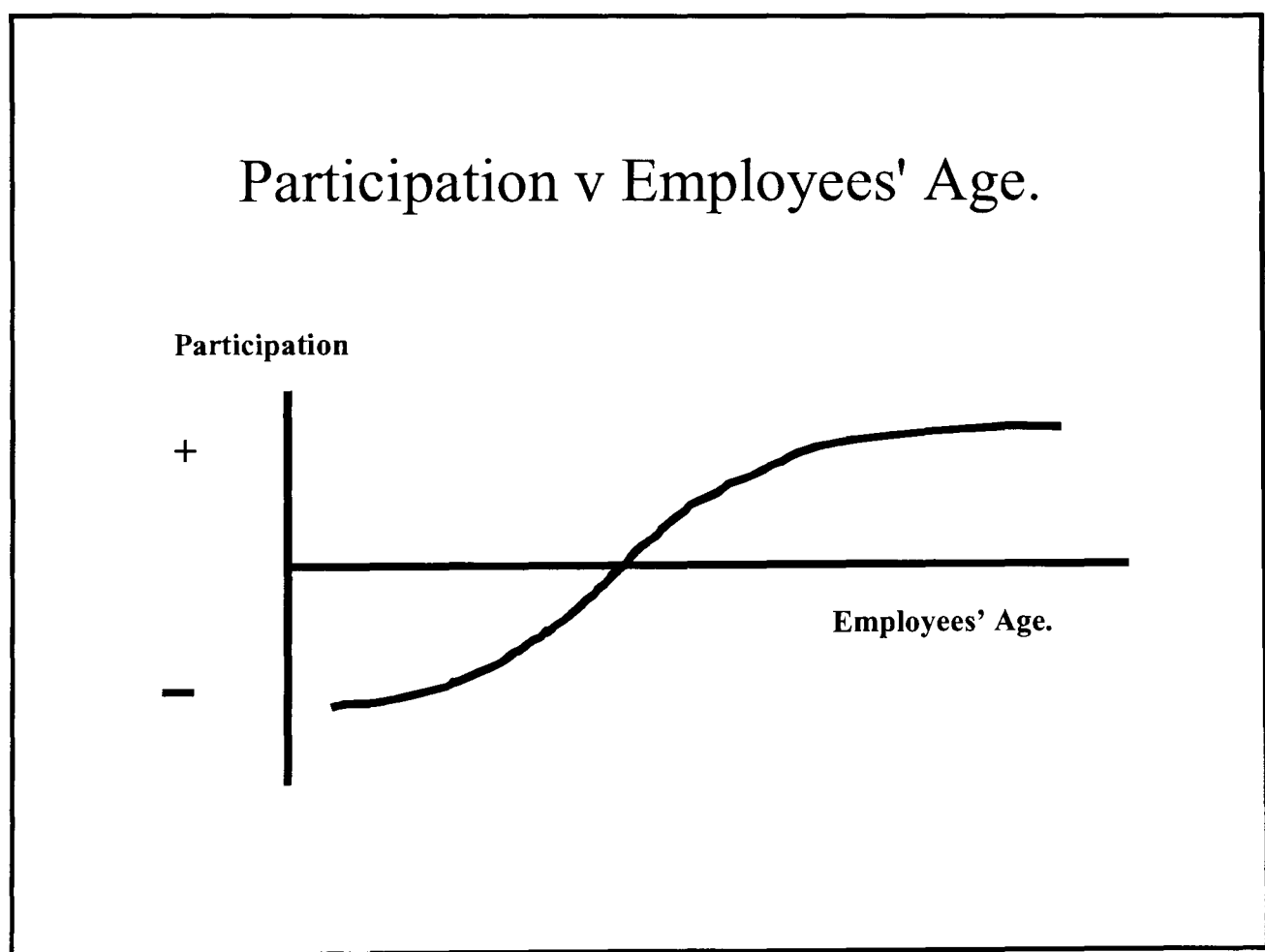
Bryman and Bell (2003:529) encouraged 'reflexivity' as 'resembling having an on-going conversation with oneself about [the research] experience whilst simultaneously living in the moment'. This reflexivity was enacted by keeping a reflective diary throughout the research project in which 'key thoughts' were noted, particularly those stimulated by the interviews, to ensure that they were not lost 'within the discipline of analysis'.

## **5.8 THE QUANTITATIVE ANALYSIS SELECTS THE INTERVIEWEES.**

All the statistical calculations were done by hand not by computer in order to facilitate my understanding of them. In making these calculations, my attention was drawn in the chi-squared calculations to the step in which the observed number of employees in a particular characteristic range was

compared to the expected number. (The step calculates the value (O - E) or observed number of employees minus expected number of employees)

The results (Figure 5.2) showed an interesting 'S' shape whereby as the employee characteristic increased (in the case of age, this means 'became older') the 'observed' level of participation started below the 'expected' value (i.e. a negative value) and rose to become above the 'expected' value. (i.e. a positive value) Although this is not surprising, the interesting point was where the graph passed through zero and changed from below the 'expected' value to above the 'expected' value. This would provide a means of choosing the group from which to select the interviewees.



**FIGURE 5.2**

**The 'S' curve – participation v age.**

Typically this type of `S` curve is found for pay and length of service as well as age. (Gender and full time/part time do not show this curve because they have only two values male/female and full time/part time)

It was decided to concentrate on the characteristic of `age` since it would be easy to distinguish employees by this characteristic, and pay and length of service data were not available from J.Sainsbury.

The observed minus the expected results (O – E) for the three case study companies is shown in table 5.3.

AGE VERSUS PARTICIPATION. (O - E) for Participants.								
AGE	19 and under	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 and over
WHSmith	-373	-273	0	114	119	171	152	90
JSainsbury	-1687	-1353	-215	341	713	870	743	588
Malalan	-435	-143	67	107	111	118	91	84

TABLE 5.3

Age v participation. (O –E) for participants.

The expected value is calculated by using a ratio namely that if, for example, 15% of all eligible employees were participants in the Sharesave scheme and 10% of all eligible employees were aged 19 and under, then the number of employees aged 19 and under who were participants would be **expected** to be 1.5%. (Calculated by 10% of 15%) The **expected** number of

employees for each age range is subtracted from the **observed** number to give the values shown in table 5.3.

The results show that the changeover point from the observed number of employees being less than the expected to where it is above is in the 25 - 29 age range for WHSmith, between the 25 - 29 and 30 - 34 age ranges in J.Sainsbury and between the 20 - 24 and 25 - 29 age ranges in Matalan.

On the basis of these results, I decided to set the group from which to select employees for interview as 'eligible employees aged 30 and under'.

To choose a group that predominantly does not participate from which to select the interviewees supports the spirit of the research question (see section 5.2) when I say 'the assumption behind the [research] question is 'why is the take up as low as 8%?' bearing in mind the non-risk nature of the scheme'. The question will be better understood when interviewees are selected from a predominantly non-participant group (employees 30 and under). However since an equal number of participant and non-participant employees will be interviewed, the research will be able to compare the views of participants and non-participants from a group that mainly has non-participating views. So whatever non-participating views were expressed, say for example, employees do not participate because they said they were too young to understand shares, the interviews would talk to an equal number of young employees who did participate and their views could be compared.

Having set the group from which to select the employees for interview as aged 30 and under, employees were selected for interview with the characteristics of male or female, full time/part time and participant or non-

participant in the scheme. This would enable qualitative data to be collected to illuminate the quantitative analysis on these same characteristics.

There are eight combinations of male/female, part time/full time and participant/non-participant. Interviewing four employees in each category (total 32 employees per case study company) was considered adequate to be representative of each category. Similarly, it was decided to interview four store managers per case study company and the senior managers (typically two, the Company Secretary and HR Director) who were responsible for the scheme.

## **5.9 SELECTION OF THE CASE STUDY COMPANIES.**

Section 3.5.2 gives details of the sectors in which financial participation schemes in general, and Sharesave schemes in particular, were considered popular in the research literature. Overall, I judged that Sharesave schemes were particularly widespread in the banking/finance/insurance and the retail sectors. However, I took the view that the banking/finance/insurance sector offered employees an opportunity to obtain `professional` advice on whether to participate in Sharesave schemes not open to ordinary employees in other sectors. Employees in the banking/finance/insurance sector could consult their boss, or possibly obtain the name of a person whose role was to advise clients on share ownership schemes. A quick internal phone call would then elicit valuable advice. Employees in other sectors would not have this advantage and would be taking a decision to participate on a much less `informed` opinion.

I therefore selected the retail sector from which to choose the case study companies since it too had a high incidence of Sharesave schemes.



Richardson and Nejad (1986:240) concurred with selecting the retail sector when they said `the [retail] sector is one which for a number of reasons should provide fertile ground for the supposed benefits of financial participation schemes`. Why the retail sector is `fertile ground` is described in more detail in section 6.7.

I did consider selecting a single company from each of three sectors and comparing the results. However, I decided that this would invoke the challenge that the company that I had selected was not representative of that sector. I judged that three companies were adequate to give a broad view of Sharesave schemes in the retail sector without a challenge that they were unrepresentative especially since they represented three different `branches` of the sector namely low cost clothing, newspapers/books/stationery and grocery retailing. However, this lost the ability to provide any `cross-sector analysis`. Cross sector research would have to be a further project.

Bryman and Bell (2003:56) supported a `comparative` case study approach across more than one company when they said `[this] embodies the logic of comparison in that it implies that we can understand social phenomenon better when they are compared in relation to two or more meaningfully contrasting cases or situations`.

The retail sector has a number of interesting features. There is a high number of companies in the sector. Fifty-four companies have quoted prices in the daily share price lists (Daily Telegraph) of which nine are in the FTSE 100. The sector employs a wide range of `types` of employees from young students doing part time work while working through further education to females working evening hours while bringing up a family. The sector has a

wide variety of `types` of retailing from supermarkets selling the weekly groceries to books, clothing and pharmacy retailing.

Saunders et al (2000:114-116) suggested that access to companies is difficult and must be negotiated skilfully. They suggested that the reasons for this are that (i) there is little value from the project as perceived by the company (ii) the subject has potential sensitivity in allowing an `outsider` to access confidential company information and (iii) the competence and credibility of the researcher may be in doubt.

I approached WHSmith, one of the pilot study companies, first. With Saunders et al's (ibid) advice in mind, I armed myself with a `what's in it for them` list and a reasonably clear picture of what aspects of their operation I wished to have access to. The `what's in it for them` list included a commitment to give them a written report of my findings with conclusions and recommendations, where appropriate, when I had finished the research. I also confirmed that all expenses would be borne by me and that, in effect, they would be obtaining a `free health check` on their Sharesave scheme in exchange for access to company data and a number of employees, managers and the company `custodians` of the scheme. Having interviewed the WHSmith Sharesave manager for the pilot study, I had established a relationship with him. The meeting to discuss full access went satisfactorily and permission was given to use WHSmith as one of my case study companies. I was therefore able to use WHSmith as a test of my approach for requesting access and then reapply it to other retail companies.

Approaches were made to other companies whose shares were quoted in the daily papers either by cold calling or through an indirect contact. A

phone call to the main switch board of the retail company asking to speak to the Sharesave scheme manager generally got me through. Normally the Sharesave scheme manager was not at a level of seniority to take the decision to agree to take on a researcher and I was usually required to gain permission from his/her manager who was normally the Company Secretary.

A decision to proceed was not usually forthcoming without a face-to-face meeting with the Company Secretary at which I went into the detail of the access that I was requesting. This enabled the company to assess my competence/credibility and for me to assess if the information that I required would be available.

Agreement was reached with J.Sainsbury to be the second case study company. This meant that other retailers who were competitors were eliminated from the list of potential companies (e.g. Tesco) since I did not wish to have two companies that were nervous about the possibility of confidential information being passed between them as part of the research nor did I wish to have two out of the three case study companies from the same `branch` of the sector.

Unexpected problems arose with obtaining the data from J.Sainsbury on element 1 (characteristics of the employee) of the model. Their HR data systems were designed to produce only specific outputs and requests for additional data required specific reprogramming, the cost of which could not be justified. Hence with J.Sainsbury only the data on age, gender and full time/part time versus participation was available.

Matalan, the dedicated out-of-town clothing retailer, became the third company to agree to access.

I gained agreement from all three case study companies that their names could be used in this thesis and each allowed their name to be given to the other two case study companies so all three companies knew who else was involved in the research.

## **5.10 THE MODEL THAT WAS RESEARCHED.**

In reviewing element 1 of the model with WHSmith (the first case study company researched), it became apparent that companies would find it difficult to provide the data for some of the subjects listed under this element.

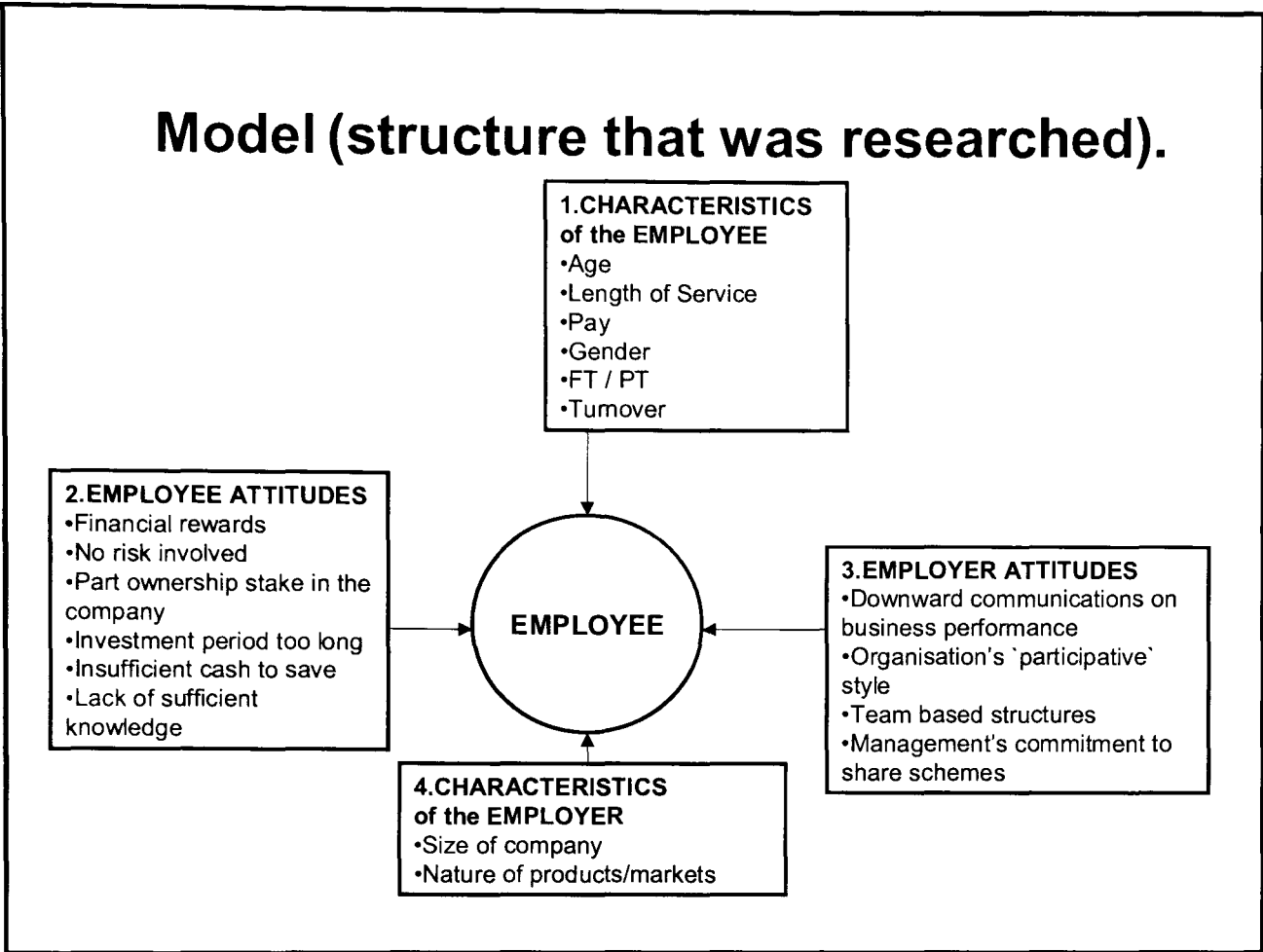
Absenteeism data was not related to the Sharesave scheme eligible population. The company produced absenteeism data for all employees and it was not readily available just for those employees who were eligible for the Sharesave scheme.

The data on grade also proved difficult. WHSmith had 108 grades and did not easily have the ability to provide data against participation for each grade. I took the view that grade, in these circumstances, would add a level of complexity, which was not warranted in terms of any outcomes that might result.

Education was also not researched. I took the view that the range of employees that I would be researching in the retail sector would not have the wide range of education levels experienced by AstraZeneca and pursuing this factor on small differences of education, (i.e. differences between GCSEs, A levels, GNVQs etc) even if the data was available, would not be beneficial.

`UK owned` was not a feature studied in this research because all three case study companies were UK owned.

Hence the model structure used as the basis for this research is shown in figure 5.4 - structure that was researched.



**FIGURE 5.4**

**Model – structure that was researched.**

**5.11 THE INTERVIEW.**

This section examines what makes a good interview and how the advice was operationalised in this thesis.

**5.11.1 The basis of a good interview.**

Yin (1994:85) saw `interviews as an essential source of case study evidence because most case studies are about human affairs`. He described interviews as only `verbal reports` and `subject to the common problems of bias, poor recall, and poor or inaccurate articulation`.

Bechhofer and Paterson (2000:68-69) looked at how interviews could be used in a particular research design. They defined an interview as `an

interactional process, an encounter, with three major characteristics. First, it has shared interactional rules. Second, it is generally carried out between strangers. And third, it is frequently a one-off affair`. They go on to emphasise that if the research is seeking to look at business social interaction in day-to-day life, then it should be called `talking to people` rather than `carrying out an interview`.

Chirban (1996:xii) concurred with this view suggesting that `approaches to interviewing that ignore or overlook the dynamics between the interviewer and interviewee often result in lifeless or less than effective interviewing`.

Gillham (2000:9-11) suggested that interviewing is enormously time consuming in travelling to the interview location, the actual time spent on the interview and the time taken to transcribe the interview. He also emphasised some of the key advantages that interviews provide which are not easily acquired by other methods. He suggested that `depth of meaning is central, the material is sensitive in character so a high degree of trust is involved, most of the questions are open and require an extended response with prompts and probes`.

Saunders et al (2000:247) agreed with the importance of `probing` the answers when they said `semi-structured and in-depth interviews also provide you with the opportunity to `probe` answers, where you want your interviews to explain, or build on, their responses. The result should be that you are able to collect a richer set of data`.

Borg (1981:86-87) was strongly positive about the advantages of interviewing describing it `as a method that is unique in that it involves the collection of data through direct verbal interaction between individuals`. He

believed that `adaptability` was its principle advantage `as contrasted with the questionnaire, which provides no immediate feedback`. He also saw the interview as `permitting much greater depth than other methods... A serious criticism of questionnaire studies is that they are often shallow....in contrast the skilled interviewer, through careful motivation of the subject and maintenance of rapport, can obtain information that the subject would probably not reveal under any other circumstances`.

Borg (1981:87) did see that the interview had definite limitations. `The interaction between the respondent and the interviewer leads to subjectivity and bias. Eagerness of the respondent to please the interviewer, a vague antagonism that sometimes arises between interviewer and respondent, or the tendency of the interviewer to seek answers that support his preconceived notions are a few of the factors that may contribute to biasing of the data`.

Bell (1999:91) also saw the major advantage of the interview as its adaptability. A skilful interviewer can follow up ideas, probe responses and investigate motives and feelings, which the questionnaire can never do. The way in which the response is made (the tone of voice, facial expression, hesitation etc.) can provide information that a written response would conceal`. Similarly, she identified the problems, concurring with Gillham, that interviews are time consuming and that with a relatively small number of people being interviewed, there is always a danger of bias.

Bell (1999: 2-95) and Saunders et al (2000:243-244) described several `types` of interviews from the structured to the unstructured explaining the differences and relative merits of each type. Saunders et al (ibid) described

interviews as ` highly formalised and structured, using standardised questions for each respondent or they may be informal and unstructured conversations. In between there may be intermediate positions`. Moser and Kalton (1971:297) explained the advantages of informal interviewing when they said `where a subject is highly complex or emotional, it may be that the greater flexibility of the informal approach succeeds better than set questions in getting to the heart of the respondent's opinion`.

Brenner (1985:150-151) described how an interviewer goes about a `good` interview. `Intensive interviewing is essentially a discovery process. .... Its object is to find out what kind of things are happening, rather than to determine the frequency of predetermined kinds of things that the researcher already believes can happen`. Brenner (1985:151) emphasised the social situation in which the interview takes place. `We can never assume that the accounts given are simply answers to questions; they are the joint product of the questions as perceived by informants and the social circumstances within which the questions are put to them`. Brenner (1985:151) goes on to explain that the social situational circumstances are affected most by the interview technique, which should avoid bias by non-directional questions and help the informant to report `adequately` that is answering the question posed and answering it accurately.

Gillham (2000:28-43) described how to do the interview and what are the mechanics of a good interview. He emphasised `active listening` (see also Saunders et al., 2000:257) and cautioned that most interviewers talk too much. He explained the importance of the non-verbal dimension of the



interview with examples of where facial expressions, eye contact and simple gestures improve the quality of the interview.

In terms of the mechanics of the interview, Gillham (2000:37-50) suggested that the interview should have four main stages: the introductory phase; the opening development stage; the central core; and the closure. Finally he described techniques for handling the actual interview itself including having prompts and probes alongside the list of questions that the interviewer had prepared in advance. Finally he explained the importance of questions of clarification and `summarising` techniques as a means of ensuring that the interviewer understood the answers correctly.

Sudman and Bradburn (1982:33) raised the point that some questions were potentially threatening. They identified `financial status: income, savings and other assets` as questions that were underreported in an interview because they represented a level of threat.

Saunders et al (2000:261-262) and Brenner (1985:154) both discussed the issue of accurate recording of the interview and the advantages and disadvantages of using a tape recorder. Saunders et al (ibid) saw the advantages as `allowing the interviewer to concentrate on the questioning and listening` and `the provision of an accurate and unbiased record of the interview`. Brenner (ibid) saw the danger as `the interviewer may cease to listen carefully to the informant's talk`.

I believed that accurately recording the interview while allowing me to concentrate on the questions and answers was paramount. My aim was to have a normal conversation with the employee, which would not be possible if I was taking notes. Contrary to Brenner's views, I found that tape recording

the interview allowed me to concentrate on the interview and as a result have a more natural conversation. No manager/employee refused my request to tape record the interview and no one showed any signs of noticing the presence of the tape recorder once the first five minutes of the interview had passed.

In this research, the interview that met the requirements of assessing elements 2, 3, and 4 of the model was the semi-structured interview. This was explained by Saunders et al (2000:253) as `the researcher will have a list of themes and questions to be covered although these may vary from interview to interview. This means that you may omit some questions in particular interviews, given the specific organisational context, which is encountered in relation to the research topic`. In essence, questions are prepared to elicit views about each of these three elements of the model and depending on the replies, follow up questions will be asked basically asking `why` employees took the action or had the views that they did.

As mentioned earlier, I was critical of the survey method as too restrictive on the opinions with which employees could reply and the degree to which they could expand on their answers. Richness would be added to the case study approach by asking a relatively small number of questions but allowing interviewees to expand on `why` they had taken the actions that they did and what related considerations had influenced them in this decision-making. By interviewing employees with specific characteristics, comparisons could be made between groups of employees on a similar set

of interview questions. Little bias would be introduced in this process because equal numbers in each specific group could be guaranteed.

Interviewing a number of managers would further enable a comparison of views between managers and employees to be explored. Managers had a unique place influencing employees on the Sharesave scheme since they were the 'introducers', and the 'explainers' of the scheme to employees. It was important to understand the extent that managers knew the concerns and issues that their employees had with the scheme. So managers could be interviewed 'on what they understood to be employees' views about the Sharesave scheme' and then this perspective could be compared to what employees actually said were their concerns and issues. This would be the manager in the management role. Managers were also employees. So managers could be interviewed as 'an employee' to see if their views and actions, with respect to the Sharesave scheme, were similar or different to the actions of their staff.

#### **5.11.2 The employee interviews.**

The interviews of employees across the three case study companies took place in 30 stores from Newcastle upon Tyne in the north, to Rhyl in the northwest, to Truro in the southwest and Basildon in the east and many locations in between.

Since the group from which employees for interview were being selected, was predominantly non-participants (for example in WHSmith, there were 453 participants and 6298 non-participants under 30 years of age), the selection of the stores to visit to conduct the interviews was driven by finding four **participant** employees in each of the categories male/female

and full time/part time. This selected the stores to visit. There would then be plenty of **non-participants** present in these same stores to fill all the non-participant categories.

The process by which the interviews were arranged was that Head Office contacted the relevant stores where their data suggested that participants under 30 were employed. I was then given the phone number of the store manager and I arranged suitable dates and times to visit and interview these participant employees. In the time between the phone call and the visit date, the store manager `sounded out` if the selected participant employees would be willing to be interviewed and also selected volunteer non-participant employees to be interviewed.

The list of questions for the interview of employees is shown in appendix 13.3. Employees were interviewed on a one-to-one basis. I considered having both individual interviews and focus group interviews as a way of getting the views of a larger cross-section of employees than if I only interviewed individually. However, I concluded that the questions were highly personal and that employees might not wish to discuss their financial matters in front of their colleagues in a group.

The questions were `tested` in the first five interviews of WHSmith employees and modestly modified as a result. For example, the first employee that I interviewed had never heard of the Sharesave scheme although employed by the company for six years. This came as a surprise to me. So in all future interviews I carried with me a copy of the invitation letter that had been sent to each eligible employee. When introducing the section of the interview on the Sharesave scheme specifically, I would show the

interviewee the invitation letter as a reminder of the scheme that I was referring to. Subsequently there were several occasions where the invitation letter 'jogged' interviewees' memory that indeed they had been invited to participate.

Under the general questions that were asked, there was a list of 'prompts' to expand on each general question. A more modest design than that recommended by Gillham (2000:37) was used namely 'introduction', 'core content' and 'closure'. I was conscious that I had limited interview time with employees since I was removing them from their daily work in order to attend the interview. I designed the interview to last 20 minutes and it rarely exceeded 30 minutes. Management were aware of how long the interviews were taking and a 'comment' was made to me once when one particularly verbose employee kept the interview going for 35 minutes.

I did not ask all employees every question. The main difference was between participants and non-participants. There was a whole range of questions about 'how much they were saving', 'to which scheme' and 'what they would do in terms of taking cash or shares when the scheme matured' that were not asked of non-participants. Hence participant interviews typically took longer than non-participant interviews.

The location conditions in which the interviews took place were poor. retail stores are not set up with space allocated for interviewing employees. In most cases the bigger the store, the greater was the range of rooms available from which one could conduct the interviews. Where the store was small, I used the manager's office. Because of the shortage of rooms, the ones that existed were always in high demand. Most of the rooms that I used

were small and in some cases were no larger than a ` broom cupboard`. This had several problems namely small rooms became hot after a short time with two people in them and if they had air conditioning, they could be noisy which could affect the tape recorder. In one instance, a curtain drawn half way across a large room created the interview room. The interviewee in this case was clearly affected since she believed, probably rightly, that her words could be heard in the other half of the room. Newspaper shops on railway stations had few rooms and the interviews were always subject to interruptions when people needed material that was in the room. In general however, these conditions did not seem to affect the interviewees' concentration on the questions. I worked hard to bring interviewees back to the line of questioning when interruptions took place by reminding them of the previous question and the question that they were answering when they were interrupted. I suspect that employees were more used to these conditions for private discussions than I was.

### **5.11.3 The construction of the employee interview.**

The employee interviews were constructed to facilitate the analysis against the model.

To ascertain employees views on all aspects of the model, the interview was conducted in four parts (called the interview categories; see appendix 13.3): (i) the career history of the employee (ii) the employee's views about the company, (iii) the employee's views about the Sharesave scheme and (iv) the employee as a shareholder. (Jackson, 2004 – Reflective Diary)

These interview categories provided qualitative data for elements 2, 3, and 4 of the model and the construction of the questions was prepared such that

the answers could be linked back to the appropriate element of the model. In this way, it was clear that all parts of the model would be covered by the interview. (The nomenclature M1 against a question heading in the employee interview sheet (see appendix 13.3) means that the answers inform element 1 of the model, M2 informs element 2 of the model etc.)

The actual conduct of the interview followed the interview sheet shown in appendix 13.3. I would introduce myself, what research I was doing and then discuss matters of confidentiality gaining the employees' agreement to tape record the conversation and gaining agreement to use some of their words as `quotes` provided I did not reveal who said them. No employee had any concerns with the conversation being tape-recorded or their words being quoted anonymously. (In the case study chapters 7, 8 and 9, quotations from employees are labelled with M or F, FT or PT, P or NP to signify the characteristics of the employee making the statement. These labels stand for male, female, full time, part time, participant and non-participant.)

Employees were eased into the interview with the initial questions being about their career to date and how they came to join the company. Besides enabling the interviewee to settle down into the interview and become comfortable about talking about him/herself, these questions helped to understand if the interviewee changed jobs regularly and therefore was not likely to have a strong interest in the company. This was the interview category `the career history of the employee`.

The next stage was questions about the company generally, its benefits and whether these were better or worse than other companies that interviewees had worked for and whether the employee was made aware of

the benefits at interview. This led to questions about whether the company was well managed, participative and/or team based. Questions in this section informed parts of elements 3 of the model. This was the interview category `views about the company`.

The third stage of the interview was detailed questions about the Sharesave scheme itself. Each employee was shown the pack that the company had issued to invite employees to join the latest Sharesave scheme. They were asked if they had seen the invitation, what had been their initial reaction and what action they had taken and why. For participants, this led to questions of detail about the scheme that they had taken out, how much they saved, whether to a 3, 5 or 7 year scheme and why? Interviewees were also asked about the influences associated with the scheme. Who did they consult if they required advice, did the scheme influence them to join or stay with the company, and did their feelings about the company itself influence them to participate or not in the scheme. Questions in this section informed parts of element 2 and 3 of the model. This was the interview category `views about the Sharesave scheme`.

The fourth stage of the interview was to ask about the business information that interviewees received about the company's performance. This led to questions, for participants only, about interviewees' knowledge of the company's shares generally and the `rights` of being a shareholder specifically. Questions in this section informed parts of elements 2, 3 and 4 of the model. This was the interview category `the employee as a shareholder`.



All the interviews finished with a question as to whether the employee wished to raise any aspect of the subject that had not been covered.

The closure phase was to remind employees that the interview was confidential and then to ask each employee interviewee to fill in a form that gave their level of pay, age, length of service and whether they were full time or part time. This data is shown in the 'profile of employees interviewed' table in each case study chapter.

My experience of interviewing ninety-five employees was that all of them were very open about their financial affairs. This was contrary to the view of Sudman and Bradburn (1982:33) who saw financial status questions as potentially threatening. No employee in any of the three case studies refused to answer any question that I asked. I began to realise that interviewees were treating me as a confidant, even a priest. I was seen as neutral, an honest broker, uninvolved with the company, and an expert. Interviewees seemed rarely to get the opportunity to discuss their financial affairs 'from their stand point' of understanding and were pleased to talk to me. I had to resist answering interviewees who asked me detailed questions about the company's Sharesave scheme and what they should do in their particular circumstances. On each occasion that my advice on the scheme was requested, I provided the internal phone number of the company's expert on the scheme and recommended they phone him. To questions about 'what is a shareholder', I gave an explanation after the interview had finished.

The cynic might say that employees were energetically interested in talking to me about their financial affairs because this was an excuse to be

away from their normal work. In most cases, the level of interest and supporting body language did not support this view. In several cases the interviewee had a set amount of work to do in the shift and if they had used some of this time being interviewed, they would have to make up the work in the remaining time.

Gillham (2000:30) emphasised the `non-verbal` dimension of the interview but his explanation was geared to the non-verbal actions of the **interviewer**.

The interviews also made me particularly aware of the non-verbal actions of the **interviewee**. With questions, for example, about whether the employees' loyalty or views about the company had influenced them to participate or not in the Sharesave scheme, the body language of the replies, in a few cases, suggested that the answers given were inclined towards the answer that the employee thought that I, the interviewer wanted. Or possibly employees wished to show loyalty by suggesting that it did influence them.

#### **5.11.4 The management interviews.**

Four store managers and two senior managers from each case study company were interviewed about their Sharesave scheme. The store managers were interviewed using a semi-structured interview sheet. (See appendix 13.2) The interviews were tape-recorded and similar rules of confidentiality to those used with employees, were also applied with the managers. A manager's interview typically took 45 to 60 minutes. The questions asked were designed to find out what managers knew about their employees' views. This was designed to allow a comparison to be made between employees' views and managers' views `of what their employees

thought` on the same questions about the company generally and the Sharesave scheme specifically. Finally, `the other role` of a manager, namely being an employee, was investigated by asking the managers about the actions they had taken on participating or not in the company's Sharesave scheme and why.

The senior managers who were interviewed were the `custodians of the Sharesave scheme`. They had the responsibility for ensuring the scheme met the Inland Revenue rules of `approved schemes`, that the management of the shares involved met the financial rules, that the scheme was properly reported in the annual report and that, as appropriate, the scheme fitted with the HR policies of the company. The senior managers interviewed were the Company Secretary and the HR director except in the case of J.Sainsbury, where a senior HR manager and the assistant Company Secretary were interviewed. A senior manager's interview (see appendix 13.1 for the interview sheet) typically took 60 to 75 minutes.

Unlike the interviews with the store managers and employees, the senior managers were sent the questions in advance to allow them to consider their answers. The questions asked were in the area of if/how business strategy influenced the HR policies of the company and whether the Sharesave scheme contributed to this strategy. A key question put to all the senior managers was what their company saw as the objective(s) for introducing a Sharesave scheme. The senior managers' views about the performance of the Sharesave scheme were sought, as were their views about the Government's new initiatives in this area, namely the introduction of SIPs. As with the store managers, senior managers had `the other role` of being an

employee. They were therefore asked about whether they participated in the Sharesave scheme or not and why.

## **5.12 DATA ANALYSIS.**

Yin (1994:102) described analysing case study evidence as `consisting of examining, categorising, tabulating or otherwise recombining the evidence to address the initial propositions of a study`.

Saunders et al (2000:383) saw the first step of analysis as `categorisation` that is `classifying the data into meaningful categories that are in effect labels that will be used to re-arrange your data`.

Saunders et al (2000:381) described quantitative data as `meanings derived from numbers and qualitative data as meanings expressed through words`.

### **5.12.1 Quantitative data analysis.**

Saunders et al (2000:328) divided quantitative data into two groups `categorical` and `quantifiable`. They defined categorical data `as data whose values cannot be measured numerically but can be classified into sets or placed into rank order`. Quantifiable data are those `whose values can be measured numerically as quantities`.

The data on participation versus the various employee characteristics such as pay, age etc provided by the three case study companies was `quantifiable data` and could be examined by the chi-squared test.

`The chi-squared test enables you to find out whether the values of the two variables are independent or [significantly] associated. It is based on a comparison of the observed values in the table with what might be expected if the two distributions were entirely independent`.(Saunders et al., 2000:358)

However the meaning of `significantly associated` needs to be treated with care. `Non-statisticians (and even some statisticians) misunderstand what is meant when we say a finding is significantly [associated]. To say something is statistically significant says nothing about its substantive significance`.

(Williams, 2003:139)

Pole and Lampard (2002:220-221) concurred with this view when they said `the chi-squared test is not without its limitations. ... Three related questions should come to mind [when using the test]: (i) is there (adequate) evidence of a relationship? (ii) how strong is the relationship? (iii) what is the form [direction] of the relationship? The chi-squared test usually allows us to answer the first of these questions, but does not help us much with the second and third questions. ... The second question requires the use of a measure of [the strength of] association, such as the phi/ Cramer's V tests. The third question can only be answered by looking at the various cells [in the data table] in more detail; for example, using percentages or differences between observed and expected frequencies`.

Healey (1993:335) also recognised that measures of the strength of association must be treated with care when he said `the problem is that the values [from the phi/Cramer's V tests] between 0.00 and 1.00 cannot be interpreted other than as an index of the relative strength of an association`.

Healey (1993:265-266) mentioned two potential difficulties with the chi-squared test as `the first occurs with small samples, and the second, interestingly enough, occurs with large samples`. On the second point, he explained `that larger samples may lead to a decision to reject the null [hypothesis] when the actual relationship is trivial`.

So in this thesis, for each set of employee characteristics data (e.g. pay) with participation, the chi-squared test is applied to identify if there is a significant association (at a 5% level of significance). If a significant association is found, the phi test is applied to give a measure of the strength of this association. The interpretation of the strength of this association is, predominantly, made by comparison of the phi values found within each case study company. The direction of this association is interpreted by looking at the 'cell percentages or the observed minus expected results' in each table. Thus all three questions posed by Pole and Lampard (2002:220-221) are addressed.

Finally, whether there was a relationship between the Sharesave offer price and the level of participation was assessed over a number of years for each case study company. For this assessment, Pearson's correlation coefficient 'r' test was used. (Taylor, 2001:162)

### **5.12.2 Qualitative data analysis.**

Richards (1999:4) identified that qualitative research usually requires 'the management of complexity. [Computer software] provides a range of tools for pursuing new understandings and theories about the data and for constructing and testing answers to research questions'. Saunders et al (2000:402) also saw computer-assisted qualitative data analysis software as potentially offering a number of advantages in relation to analytical approaches. They saw it as aiding 'project management, coding and retrieval, data management and hypothesis building and theorising'.

QSR NUD\*IST Vivo (NVivo) was selected as the qualitative analytical software to use in this research. The qualitative data analysis was achieved by constructing a matrix (in the computer software) consisting of the four interview categories as seen through the eyes of the eight `sets` of employees, for example male/part time/participants. For each case study company, each of the four interview categories was sub-divided into male/female, further sub-divided into participant/non-participant and then further sub-divided into full time/part time in the form of a tree matrix. Interview categories (ii), (iii) and (iv) (see section 5.12.3) were also the construction for the analysis of the managers` and senior managers` interviews.

All the interviews were transcribed into a computer, analysed and the relevant text put into the appropriate sub-category in the matrix. The analysed text was colour coded for each interview category as an aid to preventing mis-categorisation. For example, `the career history of the employee` was colour coded as dark blue (Jackson, 2004 – Reflective Diary) so if text on the `employee's views about the company` was put into the wrong category it would be noticed since the latter is colour coded as dark red. When the analysis was complete, the interview category such as `the career history of the employee` was then printed out in its eight constituent sub-categories namely, Male/Full Time/Participant, Male/Full Time/Non-Participant, Female/Full Time/Participant etc. There would be four employees' views in each of these sub-categories. From these scripts, comparisons could be made between the views of employees in any single sub-category or combination of sub-categories. (e.g. all male part time

employees) The typical data topics that emerged from the analysis in each interview category are shown in appendix 13.5.

Analytical comparisons were made by 'using the quantification of the analysed responses to support a qualitative explanation'. For example, in answer to questions on whether the interviewee followed the company's share price, the number of employees who said 'yes' and those who said 'no' were counted and these were expressed as a percentage of those who **answered the question**.

These percentages could then be compared either between sub-categories or a combination of sub-categories leading to a conclusion that, for example, could be expressed in a comparative way as 'more participants follow the share price than non-participants' or 'more males follow the share price than females'.

Additionally, the quantification of the responses gave an opportunity to present a more exact idea of the number of interviewees who did or did not have a particular opinion as well as use it for comparison purposes.

Several authors support the use of counting in qualitative research, for example:

When we say something is important or significant or recurrent, we have come to that estimate, in part, by making counts, comparisons and weights. (Miles and Huberman, 1994:253)

One way in which you can reflect the generality of the kinds of statements quoted is to cite how many of the interviewees made that point (or one like it). (Gillham, 2000:76)

I chose to express these types of conclusions by using a 'qualifying adjective' (shown in Table 5.5) to convey the percentage range in which the



responses, when counted, fell. A qualifying adjective was used because I did not wish to use a single number and give the impression that the conclusions had a degree of exactitude that I did not think the analysis warranted. The number of interviewees was small and not all interviewees were asked nor answered every question. This qualifying adjective is shown in *italics* in the case study chapters so its use as a `response qualifier` can be distinguished from its normal use in the prose of the thesis.

QUANTIFICATION OF THE QUALITATIVE RESPONSES.	
QUALIFYING ADJECTIVE	RESPONSE RANGE
ALL	95% +
MOST	75% - 94%
MANY	50% - 74%
SOME	25% - 49%
FEW	5% - 24%
NONE	Less than 5%

TABLE 5.5

Quantification of the qualitative responses.

5.13 RELIABILITY AND VALIDITY.

Saunders et al (2000:100) raised the issue of the credibility of the research findings which they called `reducing the possibility of getting the answer wrong means that attention has to be paid to two particular emphases on research design: reliability and validity`. Bryman and Bell (2003:33) defined reliability `as concerned with the question of whether the

results of a study are repeatable`, both `whether the measures give the same results on different occasions and whether different researchers would have similar observations on different occasions`. However, validity is concerned with whether the findings are really about what they appear to be about, particularly the nature of any causal relationships`. (Saunders et al, 2000:101)

Mason (2002:187-188) argued that reliability and validity are quantitative research terms and inappropriate for qualitative research. `[The reliability of the research tools] are premised on the assumption that methods of data collection can be conceptualised as tools, and can be standardised, neutral and non-biased. ... At the very least, a [qualitative] researcher will be unable to perform simple reliability tests of this [quantitative] type because the data they generate will not take the form of a clearly standardised set of measurements`. (Mason, 2002:187)

In using semi-structured interviews, reliability is about whether alternative interviewers would produce a similar picture to the one that the researcher has portrayed. Saunders et al (2000:251) supported Mason's views when they concluded `the value of using this non-standardised approach [semi-structured interviews] is derived from the flexibility that you may use to explore the complexity of the topic. Therefore, an attempt to ensure that qualitative non-standardised research could be replicated by other researchers would not be realistic or feasible without undermining the strength of this type of research`.

Saunders et al (2000:101) saw `generalisability` as part of validity explaining it as `whether the findings may be equally applicable to other research settings such as other organisations`. However in this research,

generalisability was not a feature that was as important as much as discovering an in-depth picture of the topic, which Saunders et al (2000:86) called the 'reality working behind the reality'.

Validity can be enhanced by triangulation. Denzin's definition of triangulation is cited by Jick (1979:602) as 'the combination of methodologies in the study of the same phenomenon'. In effect, Jick (1979:604-608) promoted the effectiveness of triangulation 'on the premise that the weakness in each single method will be compensated by the counter-balancing strengths of another'. He suggested that triangulation 'enriches our understanding by allowing for new or deeper dimensions to emerge' and that it allowed for more confident interpretations, for both testing and developing hypotheses and for more unpredicted and context-related findings'.

Mason (2002:188-194) did not favour 'triangulation of methods or data' to demonstrate validity because it 'implies a view of the social world which says that there is one, objective, and knowable social reality and all that social researchers have to do, is to work out which are the most appropriate triangulation points to measure it by ... You are highly unlikely to be able to straightforwardly use the 'products' of different methods or sources to corroborate (or otherwise) each other'. However, she favoured the use of multi-methods in the sense that it gave a 'multi-dimensional' picture of the subject being studied. Mason favoured a sound explanation as to how you came to the conclusions that your methods were valid as a better way to demonstrate validity to others than triangulation.

Overall, this research has been guided by Mason's approach namely that for qualitative research, 'methods and methodology must be explained and justified and the research findings should be based on a 'transparency to an audience of the logic of our methodological choices and analytical decisions and practices' (Mason, 2002:192) accompanied by a 'rigorous organisation and attention to details'. (Robson, 1993:74) In addition, this research compares the results of the quantitative analysis, the qualitative analysis of employees' views and the qualitative analysis of the managers' views on similar aspects of the research question enabling the validity of the data to be explored through 'different approaches'.

#### **5.14 SUMMARY.**

The research methodology developed in this chapter is driven by the model, which in turn is constructed to answer the research question. A 'comparative' case study design is selected as the best means of addressing the model. Both quantitative and qualitative methods are used for data collection, the latter using a semi-structured interview, which not only focuses on the qualitative elements of the model but also responds to the lack of talking to employees face-to-face found in the literature. Analysis of the quantitative data revealed patterns in the employee characteristics which identified employees aged 30 and under as the group from which to select the interviewees.

Access was obtained from three retail case study companies, which provided sound representation of the sector. Finally, it was planned that reliability and validity issues would be addressed in the research design by triangulation between the quantitative and qualitative data and between

employees and managers. In addition, the overall style of the research was to provide a high level of `transparency` on the methodological choices taken and why.

Having chosen the retail sector from which to select the case study companies, the next chapter presents the issues that this sector faces and therefore the context in which Sharesave schemes operate.

# Chapter 6.

## An introduction to the retail sector.

### 6.1 INTRODUCTION.

This chapter, firstly, positions the historical development of the case study companies in the context of the development of the retail sector as a whole. Secondly, the complexity of retail employment is reviewed so that the issues facing employers and employees can be understood in terms of their potential influence on Sharesave scheme participation. Finally, the chapter looks at financial participation case studies in the research literature that have used retail sector examples to assess the points that the authors considered as significant to the sector.

retailing is defined as `the sale of goods and services to the ultimate customer for personal, family or household use. It is the second largest employer in the UK with 2.3 million workers involved, accounts for 24% of the Gross Domestic Product and accounts for 37% of consumer expenditure`. (Cox and Brittain, 1996:3)

### 6.2 THE EMERGENCE OF THE RETAIL SECTOR.

At the time of the Great Exhibition in 1851, by exploiting a competitive advantage gained from being the first industrial nation, British businessmen dominated the world's markets. Contemporaries described Britain as the `Workshop of the World`. (Wilson,J.,1995:21) But although Britain led the

way in the transition from mercantile to industrial capitalism, it was already losing the international competitive race. The retardation of economic growth (relative to countries such as Germany and the USA) in the 1860s was accompanied by a depression in prices between 1873 and 1896. Curiously, out of this depression arose the growth of the British retail sector.

‘The prices depression of the late 19<sup>th</sup> century led to a significant growth in real wages’. (Wilson,J.,1995:89) This led to two effects. Firstly a surge in domestic demand brought about by the population’s (especially working class) improved spending power. This was accompanied by an increasing concentration of the population in towns and cities, which rose from 51% in 1851 to 77% in 1901. (Wilson,J.,1995:90)

Secondly a ‘retailing Revolution’ took place manifested by new techniques of selling, new methods of wholesale and retail organisations, new trades, new types of consumers goods, and new forms of retailing units’. (Jefferys, 1954:6) Branded and packaged goods expanded alongside this growth in demand by ‘the most advanced techniques for mass-producing their goods, selling them through extensive distribution systems and integrating backwards into the supply of raw materials’. (Wilson,J.,1995:97)

The increasing demand from all parts of the population led to the emergence of new types of shops. Multiple shop retailers (defined as a firm, other than a Co-operative Society, possessing ten or more retail establishments) and Co-operative Societies (defined as an organisation trading on Co-operative principles, affiliated to the national Co-operative movement and registered under the Industrial and Provident Societies Acts) met the demand of the industrial working classes. Higher class multiple

shops and department stores (defined as a large store selling under one roof, but in physically separated departments, four or more different classes of consumer goods one of which is women's and girls' clothing) catered for the middle class population living in the suburbs that were served by improved transport. (Jefferys, 1954:16-34) (Cox and Brittain, 1996:10-13)

### **6.3 THE DEVELOPMENT OF MULTIPLE SHOP RETAILING.**

The first multiple shop retailers are considered to be WHSmith, J.Menzies and the Singer Manufacturing Company who built up the early chains of bookstalls and retail shops in the 1850s. In 1875, there were estimated to be 29 multiple shop firms with 978 branches and by 1920, 471 multiple shop firms with 24,713 branches. In 1914, there were seven firms with over 500 branches of which only two, WHSmith and Boots Pure Drug Company, would be well known today. (Jefferys,1954:21-27)

Many features that would be seen today as typical of multiple shop retailing were formed in the 1850 – 1914 period. New techniques were developed in order to expand and fuel demand such as economies of scale in buying products, standardised selling techniques, low prices, cash transactions and vigorous advertising. However a minimum of 'gloss' surrounded these firms, which typically offered a narrow range of products, which were sold from shops with low customer comforts and amenities.

As wealth grew, particularly for goods other than food, the range of products and a choice of quality became more important to the customer, which was where the department stores gained over the multiple shop retailer. The former could purchase from small producers and provide 'a



selection, and a distinctiveness that could not be matched by other retailers and which would attract customers from afar`. (Jefferys,1954:33)

The `between the wars` period continued the trends seen before the First World War with some notable additions. The range of products available to purchase grew with products like electrical goods entering the shops. In addition even the range of basic goods grew with products such as margarine and medicines becoming available. The wider use of petrol driven transport took over from the horse, which meant that customers could travel further to buy at `closely packed shopping areas` and firms increasingly offered a delivery service to the customers' home.

As demand grew, so did the development of large scale production and distribution methods aided by `the existence of a relatively homogeneous working class bringing with it a large, effective demand for the necessities of life and a demand behaviour that was roughly similar in all urban parts of the country` (Jefferys,1954:34) widening the appeal of the large scale multiple shop retailers.

Post the Second World War, multiple shop retailers faced the problem of obtaining premises that were big enough for their needs especially as in many instances, the range of products was still growing. This was gradually solved by the introduction of self service stores in town centres (thus enabling a faster service for customers of this wider range of products) and as all families started to own a car, the development of the out of town super store.

## 6.4 THE INFLUENCE OF THE FOUNDING FAMILY.

Wilson, J. (1995:6) suggested that the development of modern business was formed on the three-pronged investments in production, distribution and management. It was in the investment in management that there arose the most significant difference between the development of business in Britain and its international competitors.

Initially, founding families were involved in both the ownership and the management of the business. (Thomas, 1978:305-326) The owner who was 'capitalist, financier, works manager, merchant and salesman' provided the management. (Wilson, J., 1995:12) The attitude of owner businessmen to recruiting managers was based on 'nepotism as the traditional route into a firm in the nineteenth and well into the twentieth century'. (Wilson, J., 1995:117). Although in other countries like Germany, families had formed and grown new companies, there was a greater appreciation in them of the value of professional managers thus divorcing the activities of running the operation and the 'ownership' activities of financing and strategy. Secondly the cultural scene in Britain led to successful business families seeking 'social advancement' and becoming 'gentrified'. (Wilson, J., 1995, 114) Therefore, typically, families would educate their sons to become gentlemen rather than equip them with the managerial skills to successfully run the family firm in the future. This 'gentrification' meant that the head of family businesses sought titles and invested in lands in order to 'acquire status in a society still dominated by an aristocratic ethos'. (Wilson, J., 1995, 114) It can be argued that the dominance of the family firm model remained right up to

the Second World War although signs of its decline were evident in the 1930s.

It is generally considered that the lack of professional managers was the main ingredient for the decline in British business success in the 1850 – 1930 period although this was more associated with the Manufacturing sector than a suggestion that family dominance retarded the growth and development of the retail sector. (Wilson,J.,1995:112-113)

## **6.5 THE CASE STUDY COMPANIES.**

### **6.5.1 WHSmith.**

In 1792, Anna Smith's husband died (Wilson,C.,1985) and she found herself left to run her husband's small newspaper round business and bring up a family by herself. Although she tried to sell the business, she failed and had no option but to manage the business on her own. Through perseverance, Anna created a prosperous business, which she passed on to her two sons when she died in 1816. Out of the sons, William Henry Smith showed the greatest interest in the business, which now became known as WHSmith. He aimed and succeeded in making the business the 'fastest and most efficient newspaper delivery service in the country'.

On his 21<sup>st</sup> birthday in 1846, William Henry's son, also called William Henry was taken into partnership in the firm, which became known as WHSmith & Son. It was William Henry II who in 1848 suggested the opening of a railway bookstall at Euston station. This 'railway business' exploded with the rise of the railways and WHSmith had over 1000 such stalls by the end of the 19<sup>th</sup> century. In 1905, faced with renewing the contracts for around 2000 railway bookstalls, it was decided to open shops on the railway approaches

rather than pay the higher rents demanded on the stations. Before 1906, 150 such `town` bookstalls had been opened. This farsighted policy enabled the company to grow via the town shops during the period that the railways declined. The expansion into town and city shops also coincided with an expansion of the range of products into books and stationery.

In 1857, William Henry II became head of the business when his father retired. William Henry II passed the day-to-day running of the business to a partner, William Lethbridge in 1874 to pursue an active political career having become an MP in 1868. He became the First Lord of the Admiralty and is the inspiration for the famous line “now I am the Ruler of the Queen’s Nav-ee” in HMS Pinafore by Gilbert & Sullivan.

In 1891, William Henry II died and his widow became Viscountess Hambleton. Their eldest son, already head of the business became the second Viscount Hambleton in 1913 living until 1928 when he was succeeded as head of the business by his son, the third Viscount Hambleton. On his death in 1948, the third Viscount Hambleton owned all the ordinary shares in the firm, which attracted heavy death duties. The firm was therefore floated as a public company, WHSmith & Son Limited in 1949 with the shares being purchased by family, staff and the public. The first chairman was the Hon. David Smith, brother of the third Viscount Hambleton. The Smith family remained as head of the business until 1977 when Peter Bennett OBE became the first person from outside the family to head the business. In 1996, the Hon. Philip Smith stood down from the board, finally ending any association of the Smith family with the management of the company.

### **6.5.2 J.Sainsbury.**

#### **(JS100. The Story of Sainsburys, 1969)**

The first Sainsbury's shop was opened at 173, Drury Lane, London in 1869 by John and Mary Sainsbury following their marriage in the spring of the same year. In the next twenty years they had a family of six sons and five daughters all of whom played some part in the life of the firm. The mid to late 19<sup>th</sup> century was a period of relative slow growth in which the Sainsburys developed their business in line with the retail changes of the time. In the first twenty-two years of business John Sainsbury opened 11 branches and 2 depots. In the period 1892 to 1914, he opened 115 branches. This latter period complemented the improvement in understanding of bacteriology and preservation techniques of food. Faster transport, new refrigeration methods and improved processing and canning all led to better quality food retailing. 'In the grocery and provisions and the meat trades, bulk purchasing of imported foodstuffs on a scale undreamed of by the traditional retailer and the rapid distribution of these goods to a wide network of branches were the chief characteristics of the multiple shop methods'. (Jefferys,1954:27)

Around the 1920 period saw the emphasis being placed on increasing the range of products on sale, for example from this date onwards no shop was opened without a meat counter. In the period 1919 to 1929 another 57 branches were opened and several existing branches were extended and updated. In 1922, the family firm was made into a private company, J.Sainsbury Ltd, with the founder as the Chairman and Governing Director and four of his sons as directors. In 1928, John (JJ) Sainsbury the founder died and was succeeded by his eldest son also called John (JB). Under the

enthusiasm, energy and guidance of JB, Sainsburys continued to grow even through the depression period and had reached 244 branches by 1938. This expansion had benefited from the availability of staff in the London area. In 1938, J.Sainsbury expanded out of its home territory and bought nine shops in the Midlands previously owned by Thoroughgood.

In 1938, JB Sainsbury retired through ill health and was succeeded by his two sons, the third generation Sainsburys, Alan and Robert who became joint managing directors. Alan took responsibility for the retail and trading side of the business and Robert, the financial policy, administration and personnel matters. With customers' demanding both a higher quantity and variety of goods, Sainsburys became aware that the traditional 'counter' operation was a barrier to the achievement of this. As a result of a visit to the USA in 1949, Alan Sainsbury saw at first hand the rapidly developing 'self-service' operation in retailing and recognised this as the way of the future in Britain. The first self-service shop opened in Croydon in 1950.

Today there are no members of the Sainsbury's family on the board of the company other than Lord Sainsbury of Preston Candover KG (fourth generation) who is Life President. Perhaps the best way to show the impact of the company on the retail sector is the change in turnover since 1969, the one-hundredth anniversary of the founding of the company. Then the turnover was £135 million and today it is £15.5 billion.

### **6.5.3 Matalan.**

**(Matalan Public Placing Document, 1998)**

'The first Matalan store was opened in Bamber Bridge, Preston in 1985, as a cash and carry store which required membership and which sold

products at what were ostensibly trade prices`. The founder of Matalan was John Hargreaves, who had previously built up a chain of town centre discount clothing stores in the North West under the name Jaymax. The opening of the first Matalan store represented a shift in strategy to the `out-of-town` clothing retailer with the emphasis on the `outstanding value for money membership` concept.

The success of this first store encouraged John Hargreaves to expand to eight stores by 1989 and this was followed with an injection of equity from Venture Capital Investors in 1991. The success also caused John Hargreaves to wind down the Jaymax business and concentrate on Matalan.

Prior to the company becoming public in 1998, it had grown to 74 stores and an annual turnover of £230 million broken down between its various products as follows: Womenswear 43%, Menswear 33%, Childrenswear 8%, and Homeware 16%.

WHSmith and J.Sainsbury's historical development mirrors that of the sector. The 100+ years of influence of their families and their expansion into multiple shop retailing made them archetypal examples of the sector. They have grown as a result of anticipating and responding to the changes in customer needs and behaviour over many years. For example, WHSmith anticipated the decline in the `railway station` business and moved to the high street. J.Sainsbury saw and promoted the change of the grocery business to self-service. retail development changes such as expanding the product range, improving the distribution of its products in the face of growing

complexity and controlling supplier costs have all been challenges that WHSmith and J.Sainsbury have and are facing.

Matalan is a new company to the sector. It already shows some typical retail characteristics with a strong family association and a 'out of town' customer offering. Matalan however already faces its first test as strong competitors like Tesco and ASDA expand into low cost yet good quality clothes.

## **6.6 RETAIL SECTOR EMPLOYMENT.**

'Retail employment is an excessive cost to employers or an inadequate wage to employees'. (Sparks, 1992:12) This section considers the employment characteristics that 'describe' the retail sector particularly part time working and feminisation and compares these to similar characteristics in the case study companies. (See also Freathy and Sparks, 1995; Akehurst and Alexander, 1995)

The end of the twentieth century has seen the importance of the customer rise in the retail sector with most sections of the sector having a highly competitive environment which gives the customer great choice. The customer has increasingly found that the products sold by retailers have little to choose between them so they are differentiating by the quality of the service. Although better systems and training of staff can help, customers typically see better service as synonymous with more staff. The retailer sees these trends from the opposite point of view. A highly competitive environment means pressure on prices and therefore on costs. Pressure on costs means less staff and therefore in the minds of the customer, poorer service. (Sparks, 1992:12-13)



`Four main trends in retail employment can be identified [at the end of the 20<sup>th</sup> century]; the long term decline in staff numbers; the reduction in self employed; the feminisation of the workforce and the increase in part time working`. (Sparks, 1992:13) (See also Akehurst and Alexander, 1995:xiv-xv; Balchin, 1994:43-57; Penn and Wirth, 1995:89-103; Thurman and Trah, 1990:40)

Two of these, the feminisation of the workforce and the increase in part time working are potentially important influences on participation levels of employees in the Sharesave scheme in the three case study companies.

A **part time employee** in this thesis is defined as `any employee who is **contracted** to work less hours than the company's standard working week`.

`The most visible trend [in the retail sector] is that of increasing part time working with almost 50% of all employees in retailing now being part time workers`. (Sparks, 1992:13) Income data services (1993b:7) give the figure as 47.5% part time working in retail distribution. Typically, people who work part time do so because they do not wish to work full time (75%), cannot find full time work (13%) or are students (10%). (IDS, 1993b:3)

Part time working has also aided feminisation since shorter and flexible hours have facilitated women working alongside bringing up a family.

Sparks (1992:13) estimated that 62% of all retail employees were female.

So for the majority of employees and employers, part time arrangements satisfy both parties. The employer gets a workforce that is

flexible to meet the changing patterns of the customer, like Sunday shopping, longer opening hours and busy peaks of demand. Employees get the flexibility of hours that meets their personal needs be it family, education or quality of life. O'Reilly and Fagan (1998:5) disagreed with this summary concluding that `significant proportions of women in part time jobs would prefer longer hours of work, including full time jobs`.

NUMBER OF EMPLOYEES IN THE RETAIL SECTOR. Source: Labour Market Survey.									
	MALE			FEMALE			TOTAL		
YEAR	FT in `000	PT in `000	TOTAL in `000	FT in `000	PT in `000	TOTAL in `000	Total FT in `000	Total PT in `000	Total in `000
Sept. 1998	501.3	283.4	784.7	546.6	1073	1619.6	1047.9	1356.4	2404.3
Sept. 1999	516.4	270.9	787.3	586.7	1041.3	1628	1103.1	1312.2	2415.3
Sept. 2000	526.2	292.2	818.4	574.1	1071.8	1645.9	1100.3	1364	2464.3
Sept. 2001	589.3	363.5	952.8	553.9	1237.4	1791.3	1143.2	1600.9	2744.1
Sept. 2002	594.2	381.5	975.7	522.9	1265.5	1788.4	1117.1	1647	2764.1
Sept. 2003	627.6	409.2	1036.8	554.4	1263.8	1818.2	1182	1673	2855
Sept. 2004	620.7	431.3	1052	567.9	1259.8	1827.7	1188.6	1691.1	2879.7
% change `98 - `04	24%	52%	34%	4%	17%	13%	13%	25%	20%
FT = Full time employees. PT = Part time employees.									

TABLE 6.1

Number of employees in the retail sector.

Table 6.1 shows the change in employees working in the retail sector over the last six years. The number of employees has continued to grow in this period with a 20% increase in the sector. The number of part time employees has also continued to grow with an increase of 25%.

Sparks (1992:14) identified four other macro characteristics of retail employment namely high youth employment, high labour turnover, the lack of unionisation and low pay. (See also Roberts, 1995)

Sparks (1992:15) estimated that '25% of retail employees are aged 24 and under and that retailing is an important first destination for school leavers'. retail employees are relatively low skilled and entry to such employment is easy. With the pressure on young school leavers to continue onto further education and with the reduction in financial support for such education, part time working in the retail sector is increasingly meeting their financial needs. Hence young students are likely to continue to seek part time employment in the sector. As the case study companies reveal, the retail employers are actively encouraging the recruitment of students by providing flexible hours so studying can be achieved alongside part time working. Hence the rise in part time employees in table 6.1 may be due, for example, to an increase in students, particularly male students forsaking vocational jobs on leaving school, working to pay their way through university and choosing to do this in the retail sector because of the flexibility of hours that it offers.

The downside of the low skill and easy entry to retail employment is a high turnover of staff and low pay. Turnover is one of the factors that contributes to the low unionisation in retailing since a high turnover and low allegiance to the sector (for many young employees, retailing will not be their long term career.) make recruiting and maintaining unions numbers difficult.

The case study companies displayed similar characteristics to those emphasised in the retail literature. Table 6.1 shows that part time employees are 59% of retail employees compared to the three case study companies where 56% of employees were part time in WHSmith (Table 7.10), 66% in J.Sainsbury (Table 8.9) and 82% in Matalan (Table 9.10). Table 6.1 also shows that female employees are 63% of retail employees compared to 64% females in WHSmith (Table 7.9), 64% in J.Sainsbury (Table 8.8) and 70% in Matalan (Table 9.9). Sparks (1992:15) estimated that 25% of retail employees were aged 24 years and under; this is to be compared to 30% aged 24 and under in WHSmith (Table 7.7), 26% in J.Sainsbury (Table 8.7) and 49% in Matalan (Table 9.7).

Matalan shows consistently higher levels in each of these characteristics. This is partly due to the above figures being based on the total number of employees eligible for the Sharesave scheme rather than on the total number of employees employed. In the case of Matalan, this approximates to all employees since eligibility is nil service. However, in the case of WHSmith and J.Sainsbury, eligibility is one years service or more. This would explain why the youth employment percentage is higher in Matalan since younger employees of less than one year's service are included in their figures but not in the other two companies. It does not obviously explain why part time and female levels are higher at Matalan.

Overall, the case study companies suggested that the level of part time working and youth employment are continuing to rise. The trend in gender is less clear to assess.

## 6.7 THE RETAIL SECTOR AND FINANCIAL PARTICIPATION.

On a number of occasions, authors used retail sector case study companies to explain their research on financial participation. Poole and Jenkins (1990:70-92) surveyed a number of retail companies noting that they did not have unions. However, they did not suggest that lack of unions in the retail sector was an explanation for the results that they obtained. Baddon et al. (1989:167-184) surveyed 'Breadline', a manufacturing and distribution subsidiary division of 'Goodbake'. Breadline distributed its products through one hundred retail shops. The retail nature of the subsidiary was considered to have no major impact on the financial participation results. However, it was pointed out that the particularly low proportion of Breadline employees who participated in the employee share ownership scheme was accentuated by the service qualification rules. These excluded part time employees who were in a higher proportion in the retail-oriented parts of Breadline hence disadvantaging participation levels in this division.

Fogarty and White (1988) surveyed four companies two of which were retail companies. There were few differences between the companies that were attributable to their sectors. One point, however, was emphasised namely the 'understanding and communications' of the share schemes. The survey showed a considerably reduced understanding in the two retail companies compared to the other (manufacturing) companies. The authors suggested 'there were numerous reasons why communications were likely to be more difficult in the retail companies. These include the greater decentralisation of retailing and the higher rate of labour turnover in the industry. In Company D (one of the retail companies), for example, there was

no central record of home addresses so that all communications had to be distributed through local store management`. (Fogarty and White, 1988:40)

Richardson and Nejad's (1986:239-240) work on the association of share price movements and financial participation was conducted on 41 firms in the multiple stores sector of the stock market. They described the characteristics that made the sector suitable for the study as `reasonably competitive, relatively free from direct foreign competition, and is therefore not affected by the vagaries of the exchange rate; relatively labour intensive with a fairly high demand for female labour that has not had extensive training; does not face aggressive or highly effective trade unions and managements probably have a relatively high degree of discretion and control and the basic technology of production is reasonably uniform between firms`.

## **6.8 SUMMARY.**

Two of the case study companies, WHSmith and J.Sainsbury have exhibited the characteristics typical of companies in this sector over many decades.

Matalan, although new, is following a development path typical of the sector albeit with higher levels in the employment characteristics than is found in the sector generally. The case study companies mirror employment trends found in the sector, for example part time working and feminisation. Therefore the context in which Sharesave schemes operate in these companies is typical of the sector.

Finally, the sector is considered to be suitable for research into financial participation with a relatively high labour intensity and a relatively high degree of management discretion.

The next three chapters, 7, 8 and 9 provide the results and analysis from the comparison of each case study company to the model.

# Chapter 7.

## Case study company 1.

### WHSmith.

#### 7.1 INTRODUCTION.

This chapter provides the results from the data collection in the first case study company, WHSmith. Analysis of the quantitative data is by the application of the chi-squared test supported by the phi test when a significant association is revealed. The detailed quantitative calculations are shown at the end of this chapter.

The analysis of the interviews includes direct quotes from interviewees to add the clarity of the way that employees express themselves on financial participation issues. Throughout, managers' views `about what their employees thought about the Sharesave scheme` are compared to the views of their employees on the same topics.

#### 7.2 THE BUSINESS.

From its historical roots, WHSmith has the two core businesses of (i) the retail selling of books, newspapers, magazines and stationery via town, city, railway and airport shops and (ii) the distribution of newspapers and magazines to their own shops and other multiple retailers and independent newsagents. Over the last 50 years, WHSmith has moved into many associated areas to expand on its core businesses but these have been



eventually sold off as the company `refocused` on its core businesses at the end of the 1990s.

With the acquisition of LCP Homecentres in 1979, the WHSmith Do It All centres were created. These were sold to Boots in 1996 after an intermediate joint venture period with them from 1990 to 1996. In 1986, the Our Price Music business was acquired, merged with WHSmith's 50% share of Virgin retail in 1994 and sold in 1998. In 1989, WHSmith acquired a controlling interest in Waterstone's Booksellers. This business was expanded with the 100<sup>th</sup> Waterstone's branch opening in Reading in 1995. The business was sold to a joint EMI Group and Advent International company in 1998. WHSmith purchased the John Menzies retail chain in 1998 and Hodder Headline the consumer and educational publisher in 1999. WHSmith sold Hodder Headline to Lagardere in September 2004.

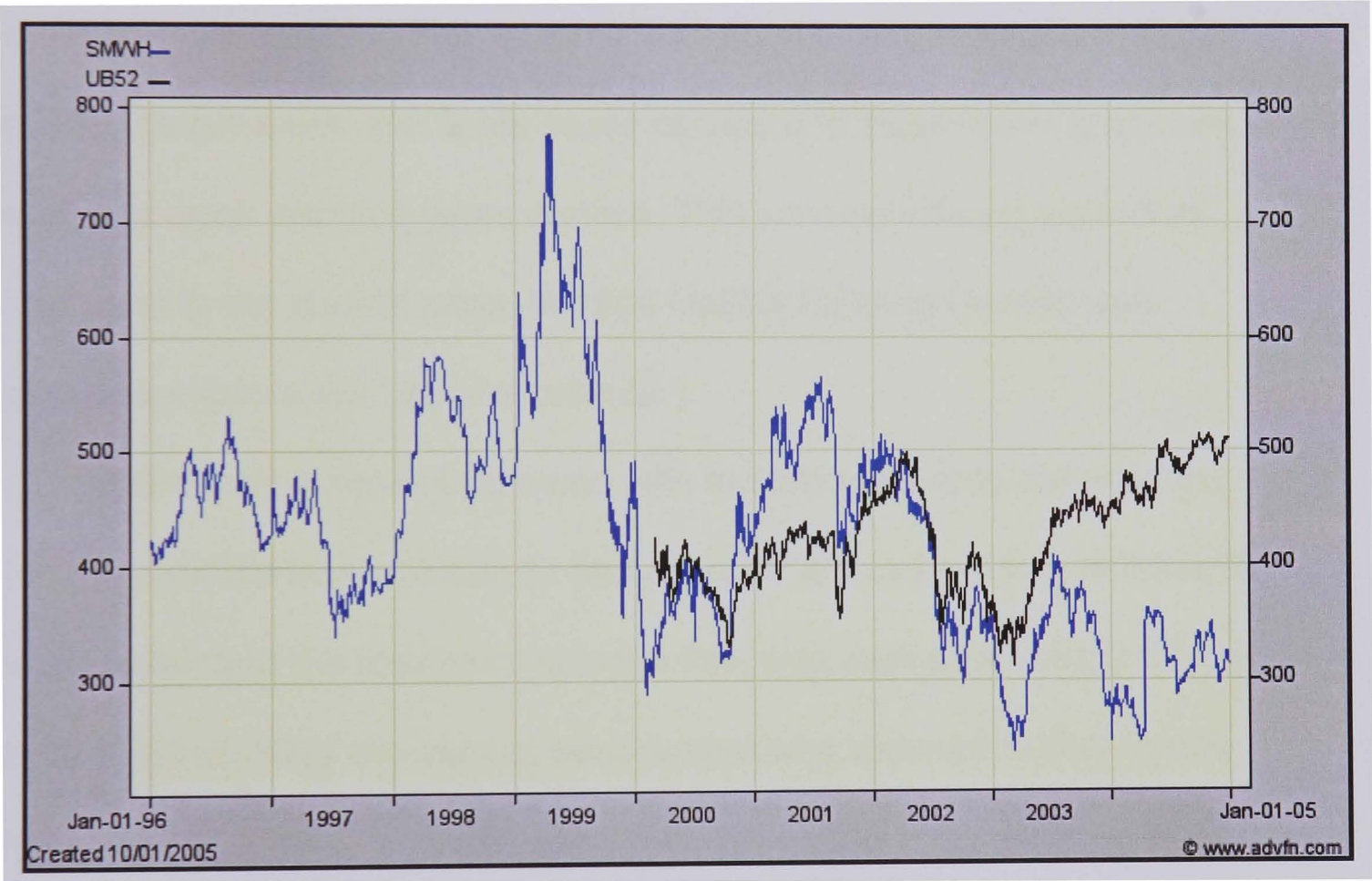
WHSmith has also had geographical aspirations. It opened its first overseas branch in Paris in 1908, an English bookshop in Brussels in 1920 and then subsequent expansion into Canada in 1950 and the USA in 1986. It disposed of its shareholding in WHSmith Canada in 1989.

Today, (WHSmith plc Annual Report and Accounts 2004:1) the company strategy revolves around the two areas of retailing and News Distribution. In WHSmith UK retail, the sales of newspapers, magazines, books and stationery are achieved through 544 high street stores and 129 station and airport stores employing around 19,643 employees.

In WHSmith News, newspaper and magazine distribution is supplied to 22,000 customers including WHSmith retail stores. This is achieved through

52 distribution centres employing around 4,312 employees. WHSmith News distributes 36% of all magazines and 33% of all newspapers in the UK.

The key money generator in the business is UK retail sales, which at the last year end (31 August 2003) were just under £1.5 billion. The News Distribution business contributed just over £1 billion in sales. The pre-tax profits have fallen steadily over the last five years from £135 million in 2000 to a loss of £31 million in 2004. This has significantly affected the share price (Figure 7.1), which has fallen from a high of just under £8 in 1999 to the current level of around £3.30. (January 2005.)



**FIGURE 7.1**

**WHSmith share price: 1996 – 2004.**

**(Y-axis = pence, X-axis = year.)**

**(Blue line = share price, black line = General retailers Index.)**

In January 2004, WHSmith issued a trading statement that was regarded by the financial press as a profits warning. This was described by

analysts as `everyone knows that WHSmith has been up against it for a number of years. The problem it's got is that everything that it does is done better by specialists`. (Murray-West and Goodley, 2004) They were referring to competitors such as Ottakars in the books business and Rymans in the stationery business.

### **7.3 THE WHSMITH SHARESAVE SCHEME.**

#### **7.3.1 A brief history of the Sharesave scheme.**

Share schemes were started in WHSmith in 1976, however they took advantage of the 1980 Finance Act and introduced an Inland Revenue approved scheme in 1981. This scheme was open to employees working at least 30 hours per week with three years service and those working at least 10 hours per week with five years service. This scheme offered options at 10% discount to the market price. In 1986 Halifax Building Society was appointed savings carrier (service provider).

In 1989 the scheme was renewed with the following amendments: the service requirement was reduced to two years for all staff working at least 10 hours per week and the maximum savings limit was increased from £100 per month to £150. In 1992 the service requirement was reduced further to one year's service or at least 10 hours per week, the option price discount was increased to 20% and the maximum savings limit was increased to £250 per month. In 1997 the Royal Bank of Scotland were appointed service provider (they were also the Registrars) and the requirement of 10 hours per week was removed. A 3 year savings contract was also introduced in this year. In 1999 the scheme's approval was re-renewed with shareholders.

### **7.3.2 The workings of the Sharesave scheme.**

Annually in early April, the Board approves an invitation to staff for a new scheme just prior to announcing the company's interim results. The Board sets a limit on the number of shares available to the scheme but this has never been breached. Board members are eligible to participate in the scheme themselves. Some do, but not the CEO.

Invitations to the new scheme are sent out at the beginning of May and employees have three weeks to apply. Options are granted to employees at the beginning of June and savings contracts commence on August 1<sup>st</sup>. The last payment to a maturing scheme is earlier in the year so employees can take out a new scheme allowing for the maturing of earlier schemes without infringing the Inland Revenue limits.

WHSmith's annual reports disclose that the company operates a Sharesave scheme, the number of employees participating in the scheme and the number of options held by employees. (WHSmith plc Annual Report and Accounts, 2004:26 and 66) Various methods of communication to employees on the scheme have been tried over the years. Currently the main communication means are 'Newslink' (in-house magazine) articles in April and May and announcements to employees via staff meetings with the manager. At these meetings application forms, which are addressed, are made available to staff to facilitate easy application. Video Road shows by the service provider were tried in 1986 but were not considered successful. Employees who are saving to the Sharesave scheme are sent the annual report although they may not yet own shares. It had always been WHSmith's policy to 'provide employees with information on the company's

performance`. At maturity, instruction forms are sent to appropriate employees advising them on how to exercise their options, close their Sharesave account and sell exercised shares if they wish.

7.3.3 Performance data on the Sharesave scheme.

WHSMITH SHARESAVE SCHEMES. 1996-2004.							
YEAR	Type of Scheme	Number of eligible employees participating /scheme	Number of eligible employees at invitation date	TOTAL Particpn. %	% split of employees saving on 3 year plans versus 5 year plans	Option price	Average saved per month per employee
1996	3 year	NO	SCHEME				
1996	5 year	2,020	17,767	11.4%	N/A	339.2p	£28
1997	3 year	1,534	19,739		54%	377.2p	£32
1997	5 year	1,309	19,739	14.4%	46%	377.2p	£31
1998	3 year	1,193	17,070		56%	422.8p	£32
1998	5 year	948	17,070	12.5%	44%	422.8p	£31
1999	3 year	1,785	16,297		65%	545.2p	£35
1999	5 year	980	16,297	17.0%	35%	545.2p	£34
2000	3 year	1,822	17,313		70%	293.4p	£45
2000	5 year	784	17,313	15.1%	30%	293.4p	£41
2001	3 year	1,351	16,695		72%	382.4p	£40
2001	5 year	513	16,695	11.2%	28%	382.4p	£34
2002	3 year	2,052	17,413		72%	356.8p	£42
2002	5 year	798	17,413	16.4%	28%	356.8p	£39
2003	3 year	1,842	17,839		73%	251.2p	£52
2003	5 year	682	17,839	14.1%	27%	251.2p	£50
2004	3 year	1,167	17,250		75%	284.4p	£41
2004	5 year	381	17,250	9.0%	25%	284.4p	£38

TABLE 7.2

Data on WHSmith’s Sharesave schemes.

The longitudinal performance data of the WHSmith Sharesave scheme is shown in table 7.2.

The main feature of the participation of WHSmith employees in their Sharesave scheme over the period 1996 to 2004 has been the high take up of the 3 year scheme alternative which was introduced by the Government in 1996. On its introduction in WHSmith in 1997 there was an immediate take up of 54%, which has risen to 75% by the year 2004. (Figure 7.3)

The participation level has remained in a narrow range of 11% - 17% except for 2004 when it fell to 9%. (Figure 7.4) In addition, despite a fluctuating option price, the amount that employees have saved per month has, in general, risen over the period except for the year 2004. (Table 7.2)

The poorer performance in Sharesave scheme participation and the lower amount of money saved in 2004 relative to earlier years is attributed by the company to the poor business performance that is currently being reported. Although the Sharesave scheme can provide cash at maturity instead of shares, nonetheless it is thought that the declining business performance can discourage employees from putting their money into the scheme.

The volatility of the option price has led to a high 'lapse and cancellation' rate when employees cancel their Sharesave scheme contracts. WHSmith reported levels of 55% to 80% for the 3 and 5 year schemes issued in the 1995 to 1998 period reflecting the market share price relative to the Sharesave option price at the time of maturity.



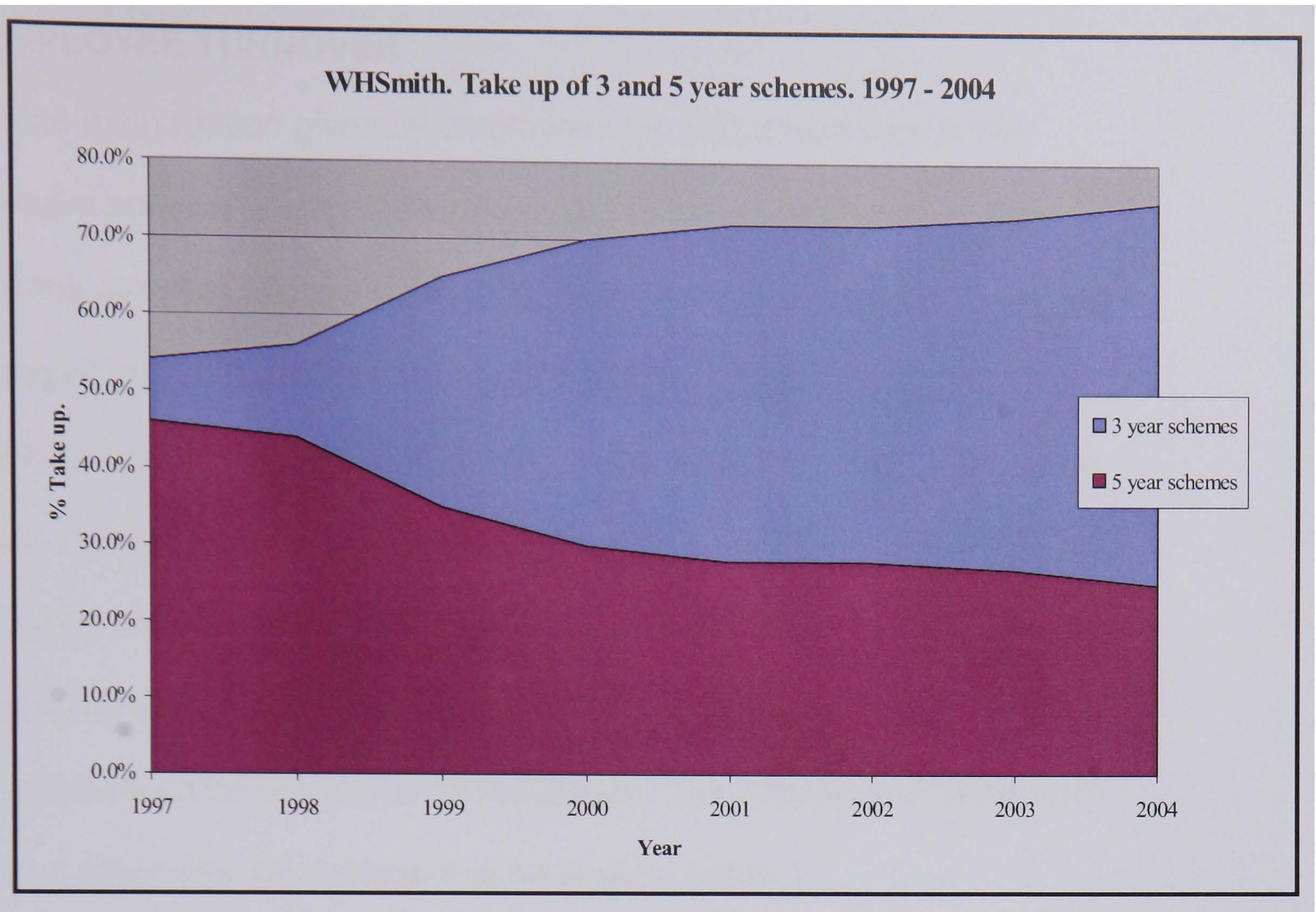


FIGURE 7.3 Take up of 3 and 5 year schemes. WHSmith.

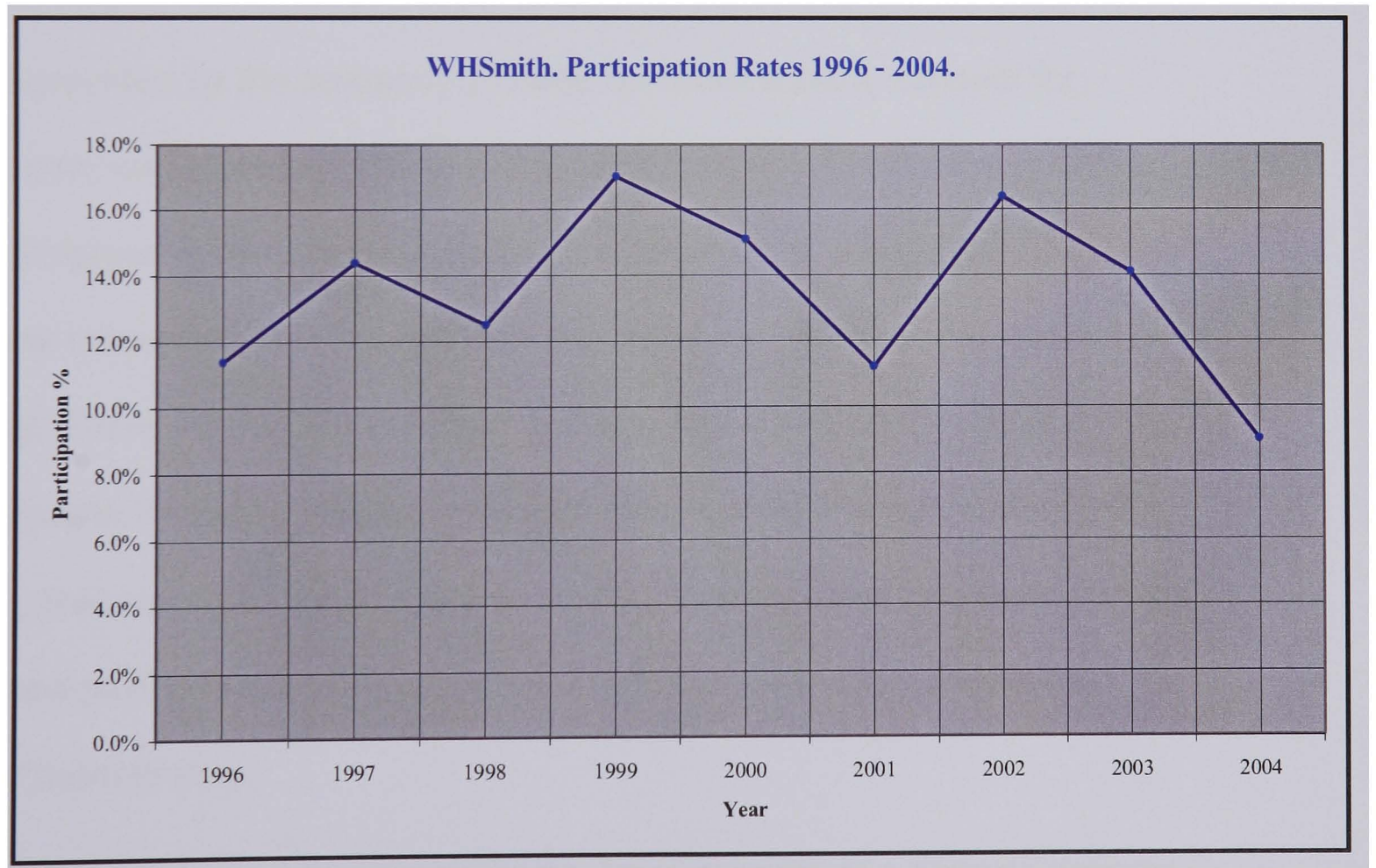


FIGURE 7.4 Participation rates 1996 - 2004. WHSmith.

## 7.4 EMPLOYEE TURNOVER.

The main reason given by employees for not participating in the Sharesave scheme was that they expected to leave the company. This raised the question of what levels of turnover were being shown by eligible employees in the Sharesave schemes that were being studied. The total population of employees invited to participate in the May 2002 Sharesave scheme numbered 17394 of whom 2831 took up the offer. (These numbers are slightly different to the `official figures` - 17413/2850 - used to calculate participation in table 7.2. The difference is because the two sets of numbers come from two different WHSmith databases. The difference is small and does not affect the conclusions that have been drawn.)

Approximately one year later, the total eligible population had fallen to 12,525 employees in which the participating employees had fallen to 2648. (Data provided by the company.) These numbers show a turnover for participant employees of 7% and for non-participants employees of 32%.

Employees were asked whether the presence of a company Sharesave scheme influenced them to stay with the company. *Most* employees said it did not. There was no difference in this view between participants and non-participants. These replies have two aspects namely that **participants** are saying that saving to the scheme does not influence them to continue to stay and **non-participants** are saying that the presence of the scheme does not cause them to stay.

Q: Does the fact that the company have benefits of a pension scheme or Sharesave scheme influence you at all to stay with the company?

A: Well, not really. I mean if I decided to leave I don't think that would make me stay. (Employee F,FT,P)



Q: Does the fact that the company have this scheme and a pension scheme influence you to stay with the company?

A: Not particularly, no, because I can't see it as a long-term career for me. (Employee,M,PT,NP)

This suggests the scheme itself does not have retention properties contrary to the view expressed by one senior manager.

Does it [Sharesave scheme] retain people because they are saving on a regular basis and at the end of the day hope they will get some money out of it? - well yes, it probably does. (Senior Manager)

## **7.5 QUANTITATIVE ANALYSIS.**

Data was collected from WHSmith on the participation of employees in the May 2002 Sharesave schemes by pay, age, length of service, gender and full time/part time. The chi-squared test (Morris,C.,1996:237-240) was applied to each set of data to see if there was a significant association between each employee characteristic and participation. The strength of this association (phi test – Black, 1999:649) was measured when an association was present.

Tables 7.6, 7.7, 7.8 and 7.10 (at the end of this chapter) show that in the application of the chi-squared test, pay, age, length of service and full time/part time reject the null hypothesis at a 5% level of significance and therefore are associated with participation. The strengths of association vary between 0.19 and 0.29. It can be concluded that pay (higher), age (older), length of service (longer) and full time influence participation in the WHSmith Sharesave scheme.

The `participants as a % of total` line in tables 7.6 and 7.7 shows that participation rises as pay and age rise although there is a fall-off in participation at the highest category of pay (over £30,000) and age (50 and

over). Participation rises in each category of length of service (table 7.8) with no fall-off in the highest category (25 years +).

Table 7.9 shows that for gender, the chi-squared test accepts the null hypothesis at a 5% level of significance and therefore gender and participation are not significantly associated.

Table 7.11 shows the application of Pearson's coefficient 'r' (Taylor, 2001:162) to test whether there is a correlation between the option price at which the Sharesave scheme is offered and the participation level. No significant association is found at a 5% level of significance. Therefore one can conclude that employees at WHSmith are not participating in the Sharesave scheme when the option price is low and gaining the potential of more shares at maturity and neither are employees participating when the option price is high when the price suggests that the business is being successful. The option price does not appear to influence participation in the scheme.

## **7.6 THE INTERVIEWS.**

In WHSmith, three categories of employee were interviewed on the May 2002 Sharesave schemes. Firstly, three senior managers were interviewed namely those responsible for the policy, procedures and administration of the Sharesave scheme. The senior managers interviewed were the Company Secretary, the Deputy Company Secretary and the HR Director. Secondly, five store/distribution centre managers were interviewed to obtain their perspective of 'delivering' the scheme to employees and the extent that they understood their employees' views about the Sharesave scheme.

Finally, thirty-two employees were interviewed in nineteen stores/distribution centres with the profile shown in table 7.5.

Profile of Employees Interviewed at WHSmith.					
Pay/year	£4999 or under	£5000 to £6999	£7000 to £8999	£9000 to £9999	£10000 and over
No.of Employees	11	1	6	7	7
Age	19 and under	20 - 24	25 - 26	27 - 29	
No. of Employees	7	22	3	0	
Length of Service	1 - 2 years	3 - 4 years	5 years	6 - 7 years	8 years and over
No. of Employees	4	21	5	2	0
Gender		Male		Female	
No. of Employees		16		16	
FT/PT		FT		PT	
No. of Employees		16		16	

TABLE 7.5

Profile of employees interviewed at WHSmith.

Interviews took place between March and May 2003 and were conducted confidentially at the employee’s place of work. Ten of the part time employees were students, six of these were participants in the scheme and five of these were male.

The interviews of employees were analysed under four headings (i) the employment history of the employee (ii) views about the company (iii) views about the Sharesave scheme and (iv) the employee as a shareholder.

### 7.6.1 The employment history of the employee.

Overall, the group of employees interviewed displayed a strong attitude to stay with the company. *Many* had worked for other companies but *most* indicated that they planned to stay and not move to other retail companies.

There was little difference in views about remaining with the company between males and females, participants and non-participants in the Sharesave scheme.

Differences in attitude on remaining with the company, unsurprisingly, were between part time and full time employees. *Many* of the part time employees were undertaking further education while working for WHSmith and planned to change careers when either their education had finished or they could get a job in their chosen career.

Q: Are you considering pursuing a graphic design career?

A: I am going to, yeah. I mean WHSmiths has been purely part time to put some money towards courses and things. (Employee M,PT,NP)

*Many* full time employees had joined the company as part time employees and just moved to full time employment when their college or university education ended. Part time employees joined WHSmith for a variety of reasons ranging from `waiting for other job opportunities to become available`, because the store was located conveniently or because the company had a good reputation as an employer.

Q: So what made you select WHSmith?

A: I heard that it was quite good here, yes, very good.  
(Employee F,PT,P)

### 7.6.2 Views about the company.

In general, the group of employees who were interviewed appeared positive about working for the company and the way they were managed. There was no discernable difference in view between participants and non-participants, part time and full time employees and males and females. The way this positiveness was described was mostly in terms of `people in Smiths are nice to work with` and `the atmosphere/environment is friendly`. Other words used to describe this positiveness were `flexible, good communications, stable/safe company with good products, and develops employees' skills`.

I just like the set up, the people I work with, the way it works and what not. I'm not too keen on the job itself but that's not the company's fault, that's retail itself. But I mean, yep, as I said the company is very helpful sorting out holidays and things like that, it's a helpful company to work for. (Employee M,PT,NP)

I like obviously the people that I work with, I like the job I do, and I like the fact that I'm a named person on the floor. (Employee F,FT,P)

(`named person` means that the employee has a name badge and is addressed by the customer by his/her Christian name.)

*Most* employees considered that they were fairly managed and that their manager was approachable.

Q: How do you think it [WHSmith] manages its employees?

A: It manages them fair, I would say. They don't discriminate or I've never come across discrimination or anything like that as far as I've worked here and, yes, they just treat them fairly. (Employee M,FT,NP)

In terms of the company's benefits package, there was a considerable ignorance about what made up the company's benefits package. This ignorance was greater in part time than full time employees but showed no

difference between males and females, participants and non-participants.

*Some* employees had knowledge of the benefits offered by other local retail employers but views were mixed as to whether WHSmith's benefits were better, comparable or worse. *Most* employees could not remember the company's benefits being explained to them at the job interview stage other than staff discount.

They went as far as to talk [at interview] about the staff discount and a little bit about what they sell and stuff like that but as far as pensions and Sharesave, no. (Employee M,FT,NP)

In general, the managers agreed that benefits were unlikely to be mentioned at interview but might be covered at employees' induction. They also agreed that some employees were unclear about the company's benefits package.

A lot of them [employees] aren't aware of all the benefits and the only way that that comes around is when you have one to one conversations when issues arise like sickness benefits, or staff-discount benefits, pensions and that type of thing. (Manager)

Interviewees did not consider WHSmith as an organisation with structures, a culture and policies; it was a place of work with people relationships. The management relationship was seen as no different to the relationship between members of staff other than the atmosphere in the place of work was directly attributable to the management relationship with employees.

To be honest I don't really know a lot about the actual company as a whole. I just kind of think about it as a store. (Employee F,FT,P)

### 7.6.3 Views about the Sharesave scheme.

The senior managers in WHSmith gave the objectives of the Sharesave scheme as follows:

Most companies going back believed that SAYE was quotes a `good thing` on the basis that it is about making employees realise what it is like to be a shareholder... I think that most businesses did it from that view and that it was a good way of getting employee association with just what it is to have shares (Senior Manager)

We provide Sharesave for our employees because we think it is good for them and also we think that therefore they become stakeholders in the company. Whether that is the truth or not, that is a different matter. (Senior Manager)

The strategic purpose of Sharesave would be described as encouraging employees to have a stake in the company, to be aligned with the shareholders and motivated by a vested interest in helping the share price to go up. (Senior Manager)

It also in theory gets the employees to be owners of the business in a very cost effective way. (Senior Manager)

This part of the interview was introduced by asking employees if they recalled seeing the invitation letter sent out in May 2002. (A copy was shown to the employee in the interview). Out of the thirty-two employees interviewed, five could not recall seeing the letter and four of these were part time employees. In addition, one full time employee recalled the application form of two years ago but professed not to have seen the 2002 invitation letter. Employees described a range of methods by which the invitation letter was `delivered` to them including (i) left in the staff room/on the staff room table (ii) invitation envelope attached to the pay slip/wage packet or (iii) placed in the employee's post tray.

Employees suggested that the mechanism for delivering the invitation letter could mean that they might not receive it especially if working part time hours at the weekend.

It was just left in the staff room so if you looked through it, you obviously find your letter - it just sits there for weeks until someone chucks it in the bin, that's how its done. (Employee F,PT,P)

For the 2002 Sharesave invitation, a change was made to address the invitation letter to each employee as opposed to previously issuing Sharesave scheme envelopes that were anonymous. The addressed envelopes were delivered to each store and either placed in the staff room or in employees' in-trays or folders. (If this system existed in the store).

A: We actually sent out applications forms to each person so ..

Q: Was that unusual this year?

A: Yes, we usually ... before we just used to send them out to the stores or the warehouse or wherever the people worked and said to the manager look `here are some Sharesave forms, do you want to apply. This time we actually targeted people and said would you like to apply and actually ramped it up a bit`. (Senior Manager)

Thoughts that participant employees had when they first received the invitation letter were, typically, `a good idea because it initiates regular saving` or alternatively `were persuaded to take up the scheme by their parents. `Non-participants' initial thoughts were more negative to taking the trouble to read and understand the invitation letter.

It was like I'll read it if I have to, kind of thing, and to be honest with you I don't think I took a lot of it in....(Employee F,FT,NP)

No interviewee could recall the Sharesave scheme being mentioned at the initial job interview and, typically, they had found out about the scheme



by either the invitation letter arriving after one year's service or colleagues/the manager mentioning it in conversation.

Q: So Sharesave was not mentioned to you [at interview]?

A: No

Q: So was this [invitation] a great surprise to you?

A: It was

Q: You did not know about it before it arrived?

A: No, I didn't even know. I thought you had to go to a bank or something to get shares in Smiths. (Employee F,PT,P)

There was little difference between participants and non-participants as to the people that they consulted when deciding to take up the Sharesave scheme. Parents were the most consulted group. Parents always encouraged employees to take up the Sharesave scheme, in many cases saving themselves to a Sharesave scheme in the company for whom they worked.

On the whole I think it was more Mum's, my Mum's pressure and her information about her ones that put it in context really.  
(Employee M,PT,P)

*Some* interviewees reported that there was discussion about the scheme in the staff room when the invitations arrived. A *few* employees said that their manager encouraged them to take part in the scheme. *Most* employees felt that they could go to their manager for advice. Where employees were receiving their first Sharesave invitation, a *few* managers said that they had, in some cases, spoken to the employees to check that they understood the invitation. Colleagues were rarely consulted.

Managers said that they did not get consulted much although they tried to make sure employees were aware that they were available if advice was

needed. Where advice was given, it was generally reassuring employees that they could withdraw their money if they left the company.

Not a great deal [of asking the manager] 'cos most of the ones that do it now, I think, have been here for quite a while and they understand it. (Manager)

Only a *few* employees could recall being invited to apply to the Sharesave schemes prior to May 2002 although twenty-eight (87%) of the employees interviewed had three or more years service.

A *few* interviewees learnt about the Sharesave scheme because they had a relative already working for the company.

My mother works for Smiths and has done for the last probably ten years and she goes into the save scheme every time it comes up so she has three constantly running. (Employee M,FT,P)

*Most* employees found the invitation letter and accompanying brochure easy to understand. There was no discernable difference in this view between participants and non-participants. The younger (19 years and under) employees were more likely to struggle to cope with the detail contained in the brochure. Several employees signed up to participate in the scheme without fully understanding it especially not understanding the ability to save another sum the following year and regretting that they took out the first Sharesave contract with too large a sum of money.

If I had known that [I could take out another scheme next year] I would have put like say only £10 and I then could have afforded to do another £10 the following year. (Employee F,FT,P)

The main area suggested for improvement was to make the brochure more exciting.

I don't think it was particularly like clear. It didn't want to make me sit down and read it. (Employee F,FT,P)

Very bland, it's always blue, it's always green and if you look at it, it's a one pager that never actually says `well this is the potential`. There's no example to say if you go back five years, this is what it is worth five years ago and this is what you would get now. (Manager)

The reason for participating in the Sharesave scheme was universally because it was a good way to save. *Many* were strongly encouraged to save by parents who saw the Sharesave scheme as a way of putting money aside `without ever seeing it`. *Many* participant employees confessed to being poor at saving and the Sharesave scheme filled this saving need. Participants strongly emphasised that they liked the fact that the money was taken out at source and they didn't notice that they were saving.

She [the supervisor] basically said it was a good idea ..... it allows you to save without knowing you are actually saving. (Employee F,FT,P)

The main reason for not participating was because the employee expected to leave the company. Clearly, part time employees who expected to leave the company when their education was completed or when they obtained a job in their chosen career saw these as the main reasons for not participating.

Full time employees who were unsure if they wanted to remain with the company also gave this uncertainty as the reason for not participating.

Although `available` money to save to a Sharesave scheme was raised, it was more complex than just to suggest that employees on low pay would not participate. With the employees who did not participate, *most* were either saving already (and saw no advantage of the Sharesave scheme over their current saving scheme) or professed to be able to find the money to do a

saving scheme if motivated to do so. There was little difference in views on available money to save between full time and part time non-participants.

I already have got two savings accounts with bank and building society and I think it would be, not that I can't afford it but I think just that two is beneficial, two is enough. (Employee F,FT,NP)

I decided that 'cos I've already got a savings scheme with the bank and what not, with the interest rate that I get from the bank and things like that, I decided it would be better to keep my money into the savings account rather than split it and put some into the Sharesave scheme. (Employee M,PT,NP)

Employees were asked if their views about the company as a whole influenced them to participate or not in the Sharesave scheme (for example out of loyalty or commitment to the company). Employees said it did not, other than 'encouragement from their manager' and 'Sharesave being the company's way of encouraging saving' were both seen as positive company attitudes. Again there was no difference in view between participants and non-participants.

I suppose it does show that they are trying, they are giving you an option to try and save some money in the future; they are giving you financial security albeit on a small scale for somebody of my age. (Employee M,PT,P)

The range of savings to the scheme was from £5 to £100 per month. In general, 3 year schemes were more popular than 5 year schemes.

Interestingly the male participant employees who were interviewed saved only to 3 year schemes whilst female participant employees saved to a mixture of both 3 and 5 year schemes. There was no apparent reason for this. Part time participant employees used the reason that they would eventually leave the company for why they saved to 3 year schemes. A

number of employees cited `learning how the scheme worked via a 3 year scheme` as to why they selected the shorter period first.

I think just because it was the shortest period and I wanted to see how it works before I decided to do the 5 year. (Employee F,FT,P)

Looking to the future, participants had no strong views on whether they would take cash or shares when their savings contract matured. In general the responses indicated they would wait and see what the share market was like at the time.

As to whether employees would take up the next Sharesave invitation (due in about 4 -6 weeks), there was again a mixed reaction. Unsurprisingly, part time employees were less likely to take up the next offer if they expected to leave the company before it matured. Full time employees, especially those currently not participating, indicated that they would give greater consideration to taking up the invitation next time possibly because they had learnt more about the scheme having been interviewed on it.

I have more plans to stay with the company - I probably would look into it more, probably would take it up. (Employee F,FT,NP)

#### **7.6.4 The employee as a shareholder.**

There were mixed views on whether employees received business information on how WHSmith, the company, was performing. Where employees said that they received business information, it was generally about the performance of their store. Some employees referred to the Intranet as providing company information if they took the trouble to access it. Employees who were in the management team or training to be a

supervisor said that their role required them to know business information about the company.

We do get a press release on the Intranet or on the home page, it will flash up `quarterly results are in`, you just got to look in it again. Again the new staff are not overly keen, I should not say overly keen, are not used to using the Intranet yet, so its still a very new toy to them and they're still only getting what they need off it. (Manager)

Employees also cited their manager as a source of information about the company either at weekly briefings or in one to one conversations when the manager raised the topic. There was no difference in view about the communication of business information between participants and non-participants of the scheme.

Employees participating in the Sharesave scheme were unaware of the rights that had/or would accrue to them as a shareholder. So becoming a shareholder or potentially a shareholder did not influence their behaviour at work. A *few* employees mentioned the poor state of the stock market as an influence on them. The majority of these employees saw this as a disincentive to participate in the scheme but one interviewee saw it as a reason to participate. This mixture of views might explain why the option price of the scheme was not correlated to participation.

Q: What are your thoughts when the next one [Sharesave scheme] comes out?

A: Not now the shares have dropped so much – not now they are below £3. I mean if they started to rise, I mean I might split what I had been saving but not now. The shares have plummeted so much; the economic climate isn't the best at the minute, is it? So I don't think it would be a good time to join something like that. (Employee M,PT,NP)

I do have my own personal savings account so I do save money, yes. But shares are so low at the minute, it is probably worthwhile buying in to them now. (Employee F,FT,NP)

Participant and non-participant employees knew little about when the AGM took place or what was said at it although most participant employees realised that the annual report that they received contained the company's annual results. All but two participant employees confirmed that they had received the annual report.

Few employees followed the WHSmith share price and when it was followed, the employee would look at the price 'occasionally'. In general, employees did not currently own nor had owned shares in other companies.

There was no difference in view on shareholder matters between part time and full time, male and female employees. Any difference in views was between participants and non-participants. Unsurprisingly, participants had more knowledge of the annual report, which they received as a Sharesave scheme participant but participants and non-participants followed the company's share price in equal measure.

Managers confirmed that employees typically received business information about how their location was performing rather than the company as a whole. Managers did not flag up the AGM in advance, would not expect employees to know when it was but might post up the company results after the AGM.

Managers rarely discussed the share price at weekly meetings but again said that this information was available on the Intranet although admitting that 'very few people were aware of that'.

The reason that the share price isn't included is .... a good question - I don't know. I'm thinking that in most cases it's above them, they wouldn't be interested, they wouldn't be aware of the relevance behind the share price. (Manager)

Managers did not expect employees to understand the rights of being a shareholder although the privatisation of the utilities and building societies had increased employees' awareness of shares.

More people are aware of shares now. I mean, you know, every day on the news they tell you how the stock market's done, teletext, Internet, all sorts of things - now is the time to buy shares - so people do take an interest in, you know, what the stock market is doing. (Manager)

I don't think too many people take much notice of any of that. [Rights as a shareholder] It's purely and simply for the money I think. (Manager)

All the managers interviewed were participants in the Sharesave scheme. Managers participated in the scheme for the attractiveness of the savings element. *Most* typically voted annually by proxy. *None* of the managers had attended the AGM nor had they known an employee to ask to attend.

Q: Do you exercise your shareholder rights?

A: Yes, I vote by proxy, I always tend to tear off the slip and send them back` (Manager)

Q: And do you exercise your shareholder rights?

A: No, to be honest, I wouldn't know what to do or what effect it would have to be honest, even for me its just a different world, different operating that my world doesn't impinge on.`(Manager)

*Some* managers took the money at the end of the contract and spent it on, for example, holidays or the house. In addition, managers were more aware than staff of the benefits of saving to a new scheme each year.

Over a 5 year period, every year I pay £10 out so I've got £50 saved everywhere ..... and then we start another one (when one drops out) so you have a rolling basis so every year you either get money or shares which you can convert depending on how they perform. (Manager)



Neither managers nor employees mentioned 'hunting the share price' as an action that they could take. One manager, when I raised the point with him, was totally unaware that this mechanism was possible.

#### **7.6.5 The use of the Intranet as a communication tool.**

The use of the Intranet as a business information communication tool was identified from a policy point of view by:

In general, each store only has one computer but as time goes by that will increase and certainly for employee communications we will be wanting more. (Senior Manager)

The interviews suggested that the Intranet, in the view of managers, is becoming a significant mechanism for communicating business information to employees. There was a noticeable change in the level of comments in the interviews about the use of the Intranet. This ranged from managers who commonly explained that a wide range of information was available on the Intranet, to full time employees, some of whom raised the Intranet as a source of business communications to part time employees who rarely mentioned the subject. Managers mentioned the Intranet as providing information on 'checklists' for things to cover at induction, the AGM results, interim results, share price, information on competitors, store performance, company performance and promotions. They also confirmed that employees would not necessarily use the Intranet to access all these items.

Most of the time it's actually on the Intranet and it's obviously up to the individual person to say 'excuse me and pull it off'. (Manager)

They [employees] just look at what they have come up for to get off the computer and not necessarily having a browse and looking what's on there. (Manager)

Employees saw the Intranet as a resource predominantly for management to use in their daily work.

A lot of it is through the Intranet now, which managers only really look at. (Employee M,FT,)

Q: Is it open to every employee if they want to look at it?

A: Well, not really, it's only open to people that have passwords, not every staff has got passwords.

Q: Have you a password?

A: Yes, so I look at it and get information from it but not many people do.

Q: How often would you typically look at it?

A: Oo! at least twice a week. (Employee M,FT)

I can use that [the Intranet], yeah, but I don't really look through for performance of the store or anything like that, I just use it to help in my job. Other than that, no I don't [use it] (Employee F,PT)

A few employees knew that the company's share price was on the Intranet.

It [the share price] was on the Intranet but if I was going to look for it I would probably go to the newspaper and look at it in that. (Employee F,FT)

## **7.7 DISCUSSION.**

This section discusses particular views of employees that were important to the case study.

Although interviewees typically earned less than £10,000 per year, money was not given as the main reason why non-participants did not take part in the scheme. There was a strong ethos to save and many interviewees were saving money to other schemes. The underlying point was that employees had to be convinced that the Sharesave scheme was the right scheme for them at the time that they were being invited to join. Many non-participants felt that either they already saved enough money in other ways

or did not see the benefits of the Sharesave scheme compared to other saving mechanisms.

Interviewees made a number of points that added context to the links between age, pay and participation. Some young interviewees expressed the view that ‘at their age they didn’t think about saving and wished to spend all the money that they earned – they would think about saving when they were older’. Younger employees said that they were unlikely to have much knowledge of shares, shareholder rights or the stock market. These are not subjects that are typically taught in schools or colleges and are usually learnt by experience during the working career. A few employees said that the word ‘shares’ on the Sharesave scheme invitation letter was enough to cause them to read no further and throw the letter away. Hence the ‘uniqueness’ of the Sharesave scheme in offering a risk-free opportunity to make a capital gain was not understood and therefore was not an incentive to participate.

Differences between full time and part time employees were complex. In WHSmith, 56% (Table 7.10) of all eligible employees for the Sharesave scheme were part time employees. Some of the stores that were visited had part time employee levels as high as 80%. In the past, when lower levels of part time employees were employed, part time employees usually would be those who worked the evening and weekend hours. However as the number of part time employees has risen as a percentage of the work force, they have increasingly staffed the regular hours during Monday to Friday. Two managers labelled their ‘weekend part timers’ differently to distinguish them from their ‘regular’ part time employees. To these managers, part time employees were a group aged 40 – 60 who worked Monday to Friday.

We don't have many young part timers unless you include the Saturday team and they are only working usually a two year band between GCSE and A levels, the majority of them – and they are the least likely to even consider Sharesave. (Manager)

For these managers, part time employees had been divided into subcategories depending on whether they were `regular` part time employees or `temporary` part time employees. In one of the stores, all employees except those who were on the management team, worked part time hours. Hence the term `part time employee` had ceased to mean an employee who worked less than the standard hours for a working week since all staff employees in the store worked part time. So to distinguish `regular` part time employees from those part time employees who worked the evening and weekend shifts (particularly students), these managers gave the latter group the distinguishing names of `the Saturday team` or `Weekend staff`.

I mean that none of the weekend staff who work in this branch are in the Sharesave; it is only the full time people or part time people who are in it. (Manager)

Because the group from which interviewees were selected was below the age of 30, students (the `Saturday Team type of employee`) were more likely to be interviewed than the regular part time employees. (62.5% of all the part time employees who were interviewed were students). `Saturday Team` employees might be hesitant to enter a commitment to a long term saving scheme since they might expect to move to another career when their education was completed, although a number of employees did say that they wished that they had started a Sharesave scheme since in hindsight they had remained with WHSmith longer than they had expected.

Part time employees said that they were disadvantaged in a number of ways. They missed out on any daily or weekly communications if, for example, they were working evening or weekend hours. Part time employees gave this as a reason as to why they had missed the arrival of the invitation letter to the Sharesave scheme. If they missed the announcement of the annual invitation or did not see the forms in the staff room, then they did not pick up the invitation. Employees said that if the letters were not picked up from the staff room after a number of days, they were thrown away. This suggests that if the invitation letter is not delivered directly into employees' hands, some will miss the opportunity to participate. Getting the invitation letter to the employee was a key step in raising the possibility of participation. Four out of the five employees who claimed not to have seen the invitation letter were part time employees who worked evenings or weekends. On discussing the possible causes of this, employees said that if they had been on holiday or off sick or working weekends when the invitation letters were delivered to the store, they would have missed the announcement of their arrival and would not have known to pick up the invitation. Interviewees said that they were not told of the Sharesave scheme at interview and few knew about the scheme until they heard announcements in the store. Clearly some employees missed these announcements and the invitation that followed

Interviewees were positive about staying with WHSmith. A possible explanation for this is provided by the terms of the Sharesave scheme benefit. Employees had to have one year's service to be eligible. Hence many employees who, on joining the company, were dissatisfied with it would have left within a year. Having a year's service as a minimum

requirement is likely to mean that eligible employees are more positive about the company and more likely to stay for the three years of a Sharesave scheme. However, the high turnover of `eligible` non-participants suggests that non-participants may not have been as positive about staying with the company as they had stated in interview.

Employees did **not** feel a corporate culture in the store and a bond with the wider WHSmith. Employees saw the store as WHSmith and the people working relationships in that store determined whether it was a `good` or `bad` store. The culture in the company or its Smith family origins was not mentioned as an influence. This is significant because the objectives stated for the Sharesave scheme (section 7.6.3) are about `encouraging the employee to have a stake in the company`. The interviews suggested that the employee had no relationship with the wider company.

Employees who were asked whether their views about the company or how it managed its employees influenced them to participate in the scheme universally answered `no`. Some employees commented that if they were not reasonably positive about the company they would not have stayed so being with the company was in itself a positive statement.

The interviews suggested that employees either did not experience or were not influenced to participate by management's enthusiasm or commitment to the Sharesave scheme. For example, employees did not mention being influenced by the Company Secretary sending out the invitation letter nor had their manager been instrumental in persuading them to join although a *few* managers said they actively encouraged employees to participate. There were also some differences in perspective between

managers and interviewees on whether they consulted the manager. *Most* employees said they did not put the manager high on the list to be consulted. Some managers said they were consulted, others said they were not.

Q: And do employees come up to you and seek your advice?

A: Quite often yes, yes. ` (Manager)

Q: And do many employees come to you?

A: Not a great deal `cos most of the ones that do it now I think have been here for quite a while`. (Manager)

Participant employees were surprisingly unaware of the role of the shareholder even though they could potentially become a shareholder. This reinforces the view that employees were participating for saving reasons rather than `ownership` reasons. Only two participant employees held shares in other companies so there was little evidence of demutualisation/privatisation share ownership influencing employees to participate in the Sharesave scheme or the Sharesave scheme influencing employees to take up shares in other companies.

There were a number of areas where managers' views differed from their employees although overall I judged that employees' views were reasonably well understood by managers. The objectives of the scheme enunciated by senior managers were not given as the reasons for which employees said they took part. Typically the objectives of the scheme (from senior managers) were to align the employee to the business by becoming a shareholder in the company. Employees did not take up the scheme for this reason nor did they understand what being a shareholder meant. Managers did not typically measure if the objectives of the scheme were being met.

Some managers believed that the Sharesave scheme had a value as a retention tool, which employees suggested it did not. In terms of company benefits (and especially the Sharesave scheme) *most* managers agreed with employees that benefits were not covered at interview although a *few* managers said that that they were. Overall, the benefits offered by the company were not seen by most managers as an incentive to encourage a new recruit to join.

Q: So in the actual interview that leads to the person being recruited, the benefits of WHSmiths isn't covered?

A: I've never covered them myself. (Manager)

Q: Do you mention the range of benefits?

A: Yes we do. We talk about things like discount, we talk about how we get to wear stunning uniform, we talk about lunch breaks, holiday pay, sickness pay that sort of thing and the chance to earn shares in the company.

Q: And pensions as well?

A: And pensions as well.

Q: And that would be at the interview stage?

A: Yes, it would actually. (Manager)

Managers saw the Intranet as a means by which the employee could find out business and share price information but employees saw the Intranet as a management tool.

## **7.8 SUMMARY.**

The comparison of the WHSmith case study to the model suggests that the employee characteristics and attitude elements of the model influence participation rather than the employer elements. Of the groups interviewed, the biggest difference in views was between full time and part time employees although the study revealed that the latter group was not homogeneous.



A low level of pay was not a barrier to participation since employees were saving in other ways; it was more the motivation to save to this particular scheme at this particular time. The attitude on participation that carried weight was about the savings advantages of the Sharesave scheme rather than a desire to be a part owner of the company. The attitude on non-participation was due to the employee expecting to leave the company. Employees did not understand the role of the shareholder and participation in the Sharesave scheme did not lead to building up a share portfolio in other companies. The mechanism by which the scheme's invitation was distributed disadvantaged employees working weekends and evenings.

Management, in general, did understand employees' views about the company and the scheme with one or two exceptions, the most significant being that the objectives for the Sharesave scheme bore no similarity to employees' views as to why they took up the scheme.

The next chapter studies the second case study company, J.Sainsbury following the same format as has been used in this chapter.

PAY VERSUS PARTICIPATION. WHSmith.								
	£4999 and below	£5000 to £9999	£10000 to £14999	£15000 to £19999	£20000 to £24999	£25000 to £29999	£30000 and above	TOTAL
Participants Observed	370	915	575	301	218	154	298	2831
Non partcpnts Observed	6065	4628	2199	682	341	213	434	14562 (error=1)
TOTAL	6435	5543	2774	983	559	367	732	17393 (error=1)
Participants as % of total	6%	17%	21%	31%	39%	42%	41%	
Participants Expected	1047.4	902.22	451.51	160	90.99	59.74	119.15	2831
Non partcpnts Expected	5387.6	4640.78	2322.49	823	468.01	307.26	612.85	14562
Participants (O - E)	-677.4	12.78	123.49	141	127.01	94.26	178.85	
Non partcpnts (O - E)	677.4	-12.78	-123.49	-141	-127.01	-94.26	-178.85	
Participants (O - E) <sup>2</sup>	458871	163.33	15249.78	19881	16131.54	8884.95	31987.32	
Non partcpnts (O - E) <sup>2</sup>	458871	163.33	15249.78	19881	16131.54	8884.95	31987.32	
Participants (O - E) <sup>2</sup> /E	438.1	0.18	33.78	124.26	177.29	148.73	268.46	1190.8
Non partcpnts (O - E) <sup>2</sup> /E	85.17	0.04	6.57	24.16	34.47	28.92	52.19	231.52
CHI-SQUARED								1422.32
The critical value of chi-squared from tables for v=6 and at a 5% level of significance is 12.592. The calculated value of chi-squared of 1422.32 means that the null hypothesis is rejected and therefore there is an association between pay and participation. Phi = 0.29								

TABLE 7.6.

Pay versus participation – WHSmith.

AGE VERSUS PARTICIPATION. WHSmith.									
AGE	19 and under	20 -24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 and above	TOTAL
Participants Observed	63	144	246	400	413	460	411	693	2830 (error=1)
Non partcpnts Observed	2615	2418	1265	1355	1396	1316	1182	3010	14557 (error=6)
TOTAL	2678	2562	1511	1755	1809	1776	1593	3703	17387 (error=7)
Participants as a % of total	2%	6%	16%	23%	23%	26%	26%	19%	
Participants Expected	435.88	417	245.94	285.65	294.44	289.07	259.28	602.72	2830
Non partcpnts Expected	2242.11	2145	1265.06	1469.35	1514.56	1486.93	1333.71	3100.28	14557
Participants (O - E)	-372.88	-273	0.06	114.35	118.56	170.93	151.72	90.28	
Non partcpnts (O - E)	372.88	273	-0.06	-114.35	-118.56	-170.93	-151.72	-90.28	
Participants (O - E) <sup>2</sup>	139039	74529	0	13075.9	14056	29217	23019	8150.48	
Non partcpnts (O - E) <sup>2</sup>	139039	74529	0	13076	14056	29217	23019	8150.5	
Participants (O - E) <sup>2</sup> /E	318.98	178.73	0	45.78	47.74	101.07	88.78	13.52	794.6
Non partcpnts (O - E) <sup>2</sup> /E	62.01	34.75	0	8.9	9.28	19.65	17.26	2.63	154.48
CHI-SQUARED									949.08
The critical value of chi-squared from tables for v=7 and at a 5% level of significance is 14.067. The calculated value of chi-squared of 949.08 means that the null hypothesis is rejected and therefore there is an association between age and participation. Phi = 0.23.									

TABLE 7.7

Age versus participation – WHSmith.

LENGTH OF SERVICE VERSUS PARTICIPATION. WHSmith.							
Length of Service	1 - 4 years	5 - 9 years	10-14years	15-19years	20-24years	25+ years	TOTAL
Participants Observed	837	711	586	290	195	212	2831
Non partcpnts Observed	8605	2927	1565	679	393	394	14563
TOTAL	9442	3638	2151	969	588	606	17394
Participants as a % of total	9%	20%	27%	30%	33%	35%	
Participants Expected	1536.75	592.11	350.09	157.71	95.7	98.63	2831
Non partcpnts Expected	7905.25	3045.89	1800.91	811.29	492.3	507.37	14563
Participants (O - E)	-699.75	118.89	235.91	132.29	99.3	113.37	
Non partcpnts (O - E)	699.75	-118.89	-235.91	-132.29	-99.3	-113.37	
Participants (O - E) <sup>2</sup>	489650	14134.83	55653.53	17500.64	9860.49	12852.76	
Non partcpnts (O - E) <sup>2</sup>	489650	14134.83	55653.53	17500.64	9860.49	12852.76	
Participants (O - E) <sup>2</sup> /E	318.63	23.87	158.97	110.97	103.04	130.31	845.79
Non partcpnts (O - E) <sup>2</sup> /E	61.94	4.64	30.9	21.57	20.03	25.33	164.41
CHI-SQUARED							1010.2
The critical value of chi-squared from tables for v=5 and at a 5% level of significance is 11.070. The calculated value of chi-squared of 1010.2 means that the null hypothesis is rejected and therefore there is an associaton between length of service and participation. Phi = 0.24.							

**TABLE 7.8**

**Length of service versus participation – WHSmith.**

GENDER VERSUS PARTICIPATION. WHSmith.			
	MALE	FEMALE	TOTAL
Participants Observed	994	1837	2831
Non partcpnts Observed	5282	9280	14562 (error=1) 17393
TOTAL Participants as a % of total	6276 16%	11117 16.5%	(error=1)
Participants Expected	1021.52	1809.48	2831
Non partcpnts Expected	5254.48	9307.52	14562
Participants (O - E)	-27.52	27.52	
Non partcpnts (O - E)	27.52	-27.52	
Participants (O - E) <sup>2</sup>	757.35	757.35	
Non partcpnts (O - E) <sup>2</sup>	757.35	757.35	
Participants (O - E) <sup>2</sup> /E	0.76	0.41	1.17
Non partcpnts (O - E) <sup>2</sup> /E	0.14	0.08	0.22
CHI-SQUARED			1.39
The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 1.39 means that the null hypothesis is accepted and therefore there is no association between gender and participation. Yates' correction was tested but produced no different conclusion.			

TABLE 7.9

Gender versus participation – WHSmith.

FULL TIME/PART TIME VERSUS PARTICIPATION. WHSmith.			
	FULL TIME	PART TIME	TOTAL
Participants Observed	1849	982	2831
Non partcpnts Observed	5767	8796	14563
TOTAL	7616	9778	17394
Participants as a % of total	24%	10%	
Participants Expected	1239.56	1591.44	2831
Non partcpnts Expected	6376.44	8186.56	14563
Participants (O - E)	609.44	-609.44	
Non partcpnts (O - E)	-609.44	609.44	
Participants (O - E) <sup>2</sup>	371417.11	371417.11	
Non partcpnts (O - E) <sup>2</sup>	371417.11	371417.11	
Participants (O - E) <sup>2</sup> /E	299.64	233.38	533.02
Non partcpnts (O - E) <sup>2</sup> /E	58.25	45.37	103.62
CHI-SQUARED			636.64
<p>The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 636.64 means that the null hypothesis is rejected and therefore there is an association between FT/PT (in this case FT) and participation. Yates' correction was tested but it produced no different conclusion. Phi = 0.19.</p>			

TABLE 7.10

FT/PT versus participation – WHSmith.

Is there a correlation between option price and participation? WHSmith.							
Year	Option Price	RPI	Adjusted Price	Particn			
			X	Y	X2	Y2	XY
1996	£3.39	100.00	£3.39	11.37%	11.5	129.28	38.54
1997	£3.77	102.62	£3.67	14.40%	13.47	197.12	52.85
1998	£4.23	106.93	£3.96	12.54%	15.68	157.25	49.66
1999	£5.45	108.31	£5.03	16.97%	25.3	287.98	85.36
2000	£2.93	111.64	£2.62	15.05%	6.86	226.5	39.43
2001	£3.82	113.93	£3.35	11.17%	11.22	124.77	37.42
2002	£3.57	115.24	£3.10	16.37%	9.61	267.98	50.75
2003	£2.51	118.71	£2.11	14.15%	4.45	200.22	29.86
2004	£2.84	121.98	£2.33	8.97%	5.43	80.46	20.90
Sum			29.56	120.99	103.52	1671.56	404.77
Sum XX	6.43	( n = 9)					
Sum YY	45.05	( n = 9)					
Sum XY	7.39	( n = 9)					
r	0.43	(v = 7)					
Critical value of r from tables is 0.666 for v=7 and at a 5% level of significance so the null hypothesis is accepted & therefore there is no correlation between option price and participation.							

**TABLE 7.11**

**Correlation of option price and participation.**

# Chapter 8.

## Case study company 2.

### J.Sainsbury.

#### 8.1 INTRODUCTION.

This chapter provides the results from the data collection in the second case study company, J.Sainsbury. Only quantitative data on age, gender and full time/part time versus participation was available from the company.

Analysis of the quantitative data is by the application of the chi-squared test supported by the phi test when a significant association is revealed. The detailed quantitative calculations are shown at the end of this chapter.

The analysis of the interviews includes direct quotes from interviewees to add the clarity of the way employees express themselves on financial participation issues. Throughout, managers' views about what their employees thought about the scheme are compared to the views of their employees on the same topics.

#### 8.2 THE BUSINESS.

J.Sainsbury describes itself as 'a leading UK food retailer with interests in financial services'. The group comprises J.Sainsbury's Supermarkets and Sainsbury's Bank. J.Sainsbury in 2004 employed 147,500 worldwide and had a turnover of £15.5 billion (up 2.5% on 2003). Its pre-tax profits were £610 million (down 8.5% on 2003). (J.Sainsbury plc Annual Report and Financial Statements, 2004:1) J.Sainsbury has had, particularly over the



1970s and 1980s, an unprecedented period of success where it grew in size without rivals and was considered an 'unstoppable business'. At the beginning of the 21<sup>st</sup> century, it faces challenges that its rivals, particularly Tesco and ASDA, are seen to be addressing more successfully.

J.Sainsbury's position in the food retailers league table has fallen from first to third with press comment being made as to whether it will fall to fourth position behind Wm.Morrison following the latter's take over of Safeways.

(Watson, 2003:33; McAllister, 2003:31) These challenges are (a) the development of a non-food offering to the customer. 'Customers want us to focus on food but also develop non-food ranges the Sainsburys way'.

(J.Sainsbury plc Annual Review and Summary Financial Statements, 2003:6)

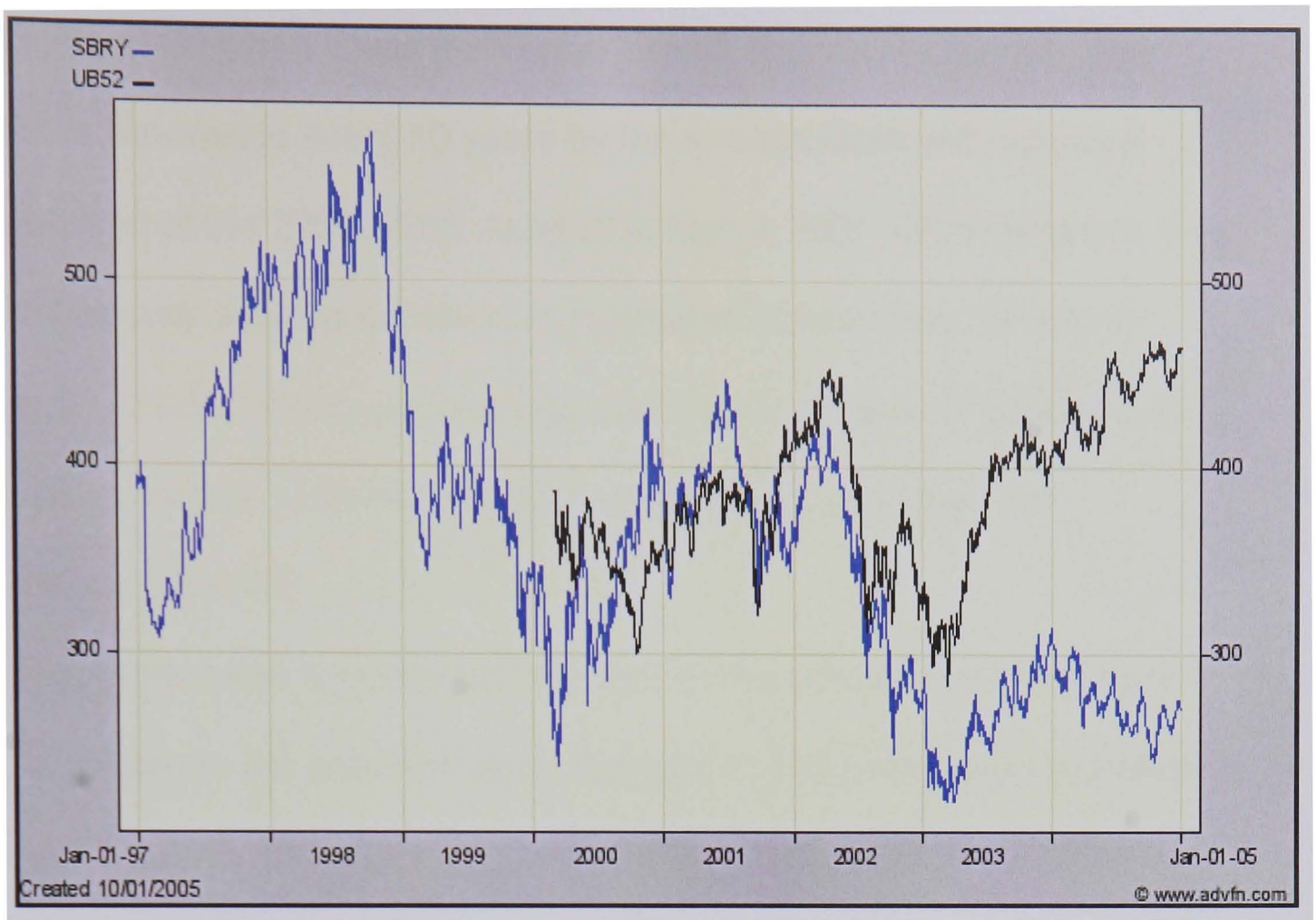
(b) to strengthen the on-line grocery service, 'Sainsburys to You' and finally

(c) to differentiate themselves from their competitors on Quality, Choice and Service. The latter is proving hard to achieve for a number of reasons.

J.Sainsbury is seen as a 'southern based' company and what the brand stands for is not understood so readily in the north of the country. Making the brand accepted nationwide has the risk that its appeal will be diluted in the south where its strength lies. (Watson, 2003:33)

Secondly the company does not appear to be as efficient in terms of its supply chain and the use of IT systems as its rivals. Hence customers see its rivals as providing equal or better service and price, the heart of

J.Sainsbury's differentiation. In addition J.Sainsbury's pursuit of price competitiveness has led to cost cutting especially staff costs. This causes, on occasions, lower staff numbers and higher staff turnover, which the customer experiences as poor service.



**FIGURE 8.1**

**J.Sainsbury share price: 1997 – 2004.**

**(Y-axis = pence, X-axis = year)**

**(Blue line = share price, black line = General retailers Index.)**

Figure 8.1 shows the change in the J.Sainsbury's share price over the period 1997 - 2004. The share price, which has approximately halved over this period, shows the declining market view on the likely success of the company. In this situation, 3 or 5 year Sharesave schemes are unlikely to show any significant capital growth at maturity and employees are most likely to take cash rather than shares.

### **8.3 THE J.SAINSBURY SHARESAVE SCHEME.**

#### **8.3.1 A brief history of the Sharesave scheme.**

The Sharesave scheme was introduced in 1974. (At the time, it was called a Save as you Earn scheme - SAYE) The SAYE scheme was first set out in the Finance Act in 1974 and run by J.Sainsbury on an unapproved

basis up to 1980 when it was converted into an approved scheme. The scheme is renewable every 10 years by the shareholders with approval being agreed at the 2002 AGM. As at 27th March 2004, UK employees held 34,700 five-year savings contracts in respect of options over 22 million shares and 29,400 three-year savings contracts in respect of options over 12.7 million shares. (J.Sainsbury plc Annual Report and Financial Statements, 2004:43)

There has been a number of changes in the scheme over the years with, for example, the provider being changed to HBOS plc and the inclusion in the scheme of part time employees providing they have one year's service. The scheme is limited (due to the share dilution guidance from the ABI) to 10 million shares per year (1/2% of the share capital).

The company offers three share schemes that are available to all employees: (i) the Sharesave scheme – called by the company 'the Savings Related Share Option Scheme' (ii) the Share Purchase Scheme which allows employees to purchase up to a maximum of £125 per month of shares in the company and (iii) the Commitment Share Plan which is the free provision of shares to employees and which are cashable after five years. (ii) and (iii) were launched following the Government's introduction of share incentive plans (SIPs) in the year 2000.(IDS, 2004:23) The company has in the past also offered shares via an Employee Profit Sharing Scheme but this was withdrawn and its final payment was made in 2002.

### **8.3.2 The workings of the Sharesave scheme.**

The Board approves a new Sharesave scheme annually in November at the time of the interim results. The share price used for setting the option

price for the scheme is the closing price on the day following the interim announcement of the results set at a 20% discount. The maximum savings level is £200/month scaled back in the event of over subscription. Every year scale back has been required. In a perverse way, J.Sainsbury's falling share price has exasperated this effect because as the share price has fallen, the employee earns an increased number of shares for the money that s/he saves. So the maximum number of shares available is more likely to be breached as the share price drops.

Invitation packs are sent out to the homes of all eligible employees (Employees that have at least one year's service on October 31<sup>st</sup>) and they are given, typically, three weeks to return their acceptance. The invitation pack consists of a covering letter from Sir Peter Davis (Group Chief Executive at the time of the November 2002 offer), an application form, an explanatory booklet and the detailed `rules` of the scheme. The first deduction from salary takes place in February or March depending on whether the employee is weekly paid (February) or monthly paid (March).

At maturity, a maturity pack is sent to employees giving them the choices that they can exercise. These are: (i) to convert the savings into shares and sell immediately, (ii) to convert the savings to shares and hold them as shares, (iii) to convert the savings to shares and hold them in an ISA and (iv) to convert the savings to cash. The maturity date is always before the offer of the new scheme in that year because Sainsburys runs pay on a 4 week cycle giving 13 payments in a calendar year, whereas the Sharesave runs on 36 or 60 monthly periods. For employees leaving the company, a `good leaver/bad leaver` system is applied. An employee who retires or is

made redundant is considered a `good leaver` and is given 6 months to exercise his/her options even though the 3 or 5 year period is not complete. Employees who resign are considered `bad leavers` and can only take their money out with interest if they have been in the scheme for over a year, or without interest if less than a year. There are `lapses` in schemes mainly due to employees leaving the company. `Lapses` run at around 20%.

Employees' views are sought about the scheme by occasional focus groups and by feedback from employees directly to the Assistant Company Secretary responsible for the scheme.

The Company Secretary's department `runs` the scheme alongside its scheme administrator HBOS plc. The `policy` associated with the Sharesave scheme is owned by the HR department. The Sharesave scheme is communicated by launch and maturity packs. Posters are also used to announce the scheme and the offer price. The annual report (J.Sainsbury plc Annual Report and Financial Statements, 2004:43) discloses that the QUEST set up for the purpose of acquiring shares for UK employees in satisfaction of their options under the Sharesave scheme was liquidated in 2004 and that now shares are `issued directly to UK employees` as required by the scheme.

**8.3.3 Performance data on the Sharesave scheme.**

Table 8.2 shows the performance of the Sharesave scheme for the period 1997 to 2003. The table shows a number of trends.

<b>J.SAINSBURY SHARESAVE SCHEMES 1997 - 2003</b>							
<b>YEAR</b>	<b>Type of Scheme</b>	<b>Number of Employees participating (TOTAL)</b>	<b>Number of employee eligible (TOTAL)</b>	<b>Total % Participn in the Scheme</b>	<b>% split of employees between 3 and 5 year plans</b>	<b>Option Price</b>	<b>Average saved per month per employee</b>
1997	3 year	13,758	92,000	32%	46.5%	£3.98	n/a
1997	5 year	15,713	92,000		53.5%	£3.98	n/a
1998	3 year	16,419	98,000	31%	53.7%	£4.16	£25.41
1998	5 year	14,128	98,000		46.3%	£4.16	£27.54
1999	3 year	15,252	100,000	26%	58.1%	£2.53	£18.67
1999	5 year	10,987	100,000		41.9%	£2.53	£19.27
2000	3 year	14,335	106,000	23%	59.9%	£2.99	£26.35
2000	5 year	9,591	106,000		40.1%	£2.99	£26.25
2001	3 year	10,295	104,598	16%	59.9%	£3.02	£34.38
2001	5 year	6,881	104,598		40.1%	£3.02	£33.60
2002	3 year	9,202	108,889	14%	59.8%	£2.39	£31.20
2002	5 year	6,193	108,889		40.2%	£2.39	£31.80
2003	3 year	8,063	104,000	13%	60.0%	£2.41	£35.04
2003	5 year	5,298	104,000		40.0%	£2.41	£36.15

**TABLE 8.2**

**Data on J.Sainsbury's Sharesave schemes.**

There has also been a modest increase in the average amount of money saved per month from an average of around £26/month in 1998 to



£35.50/month in 2003.

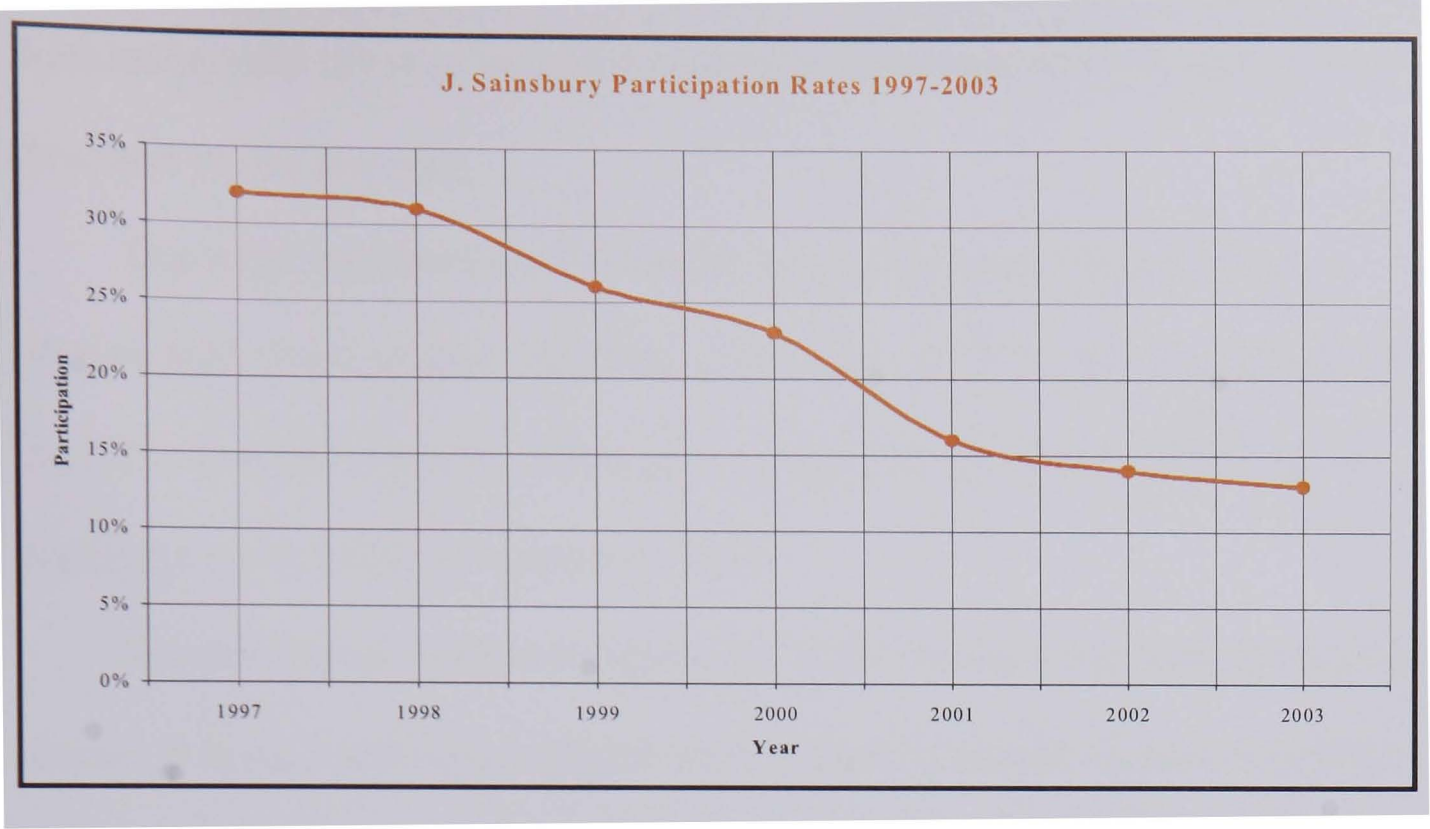


FIGURE 8.3

Participation rates 1997 – 2003. J.Sainsbury.

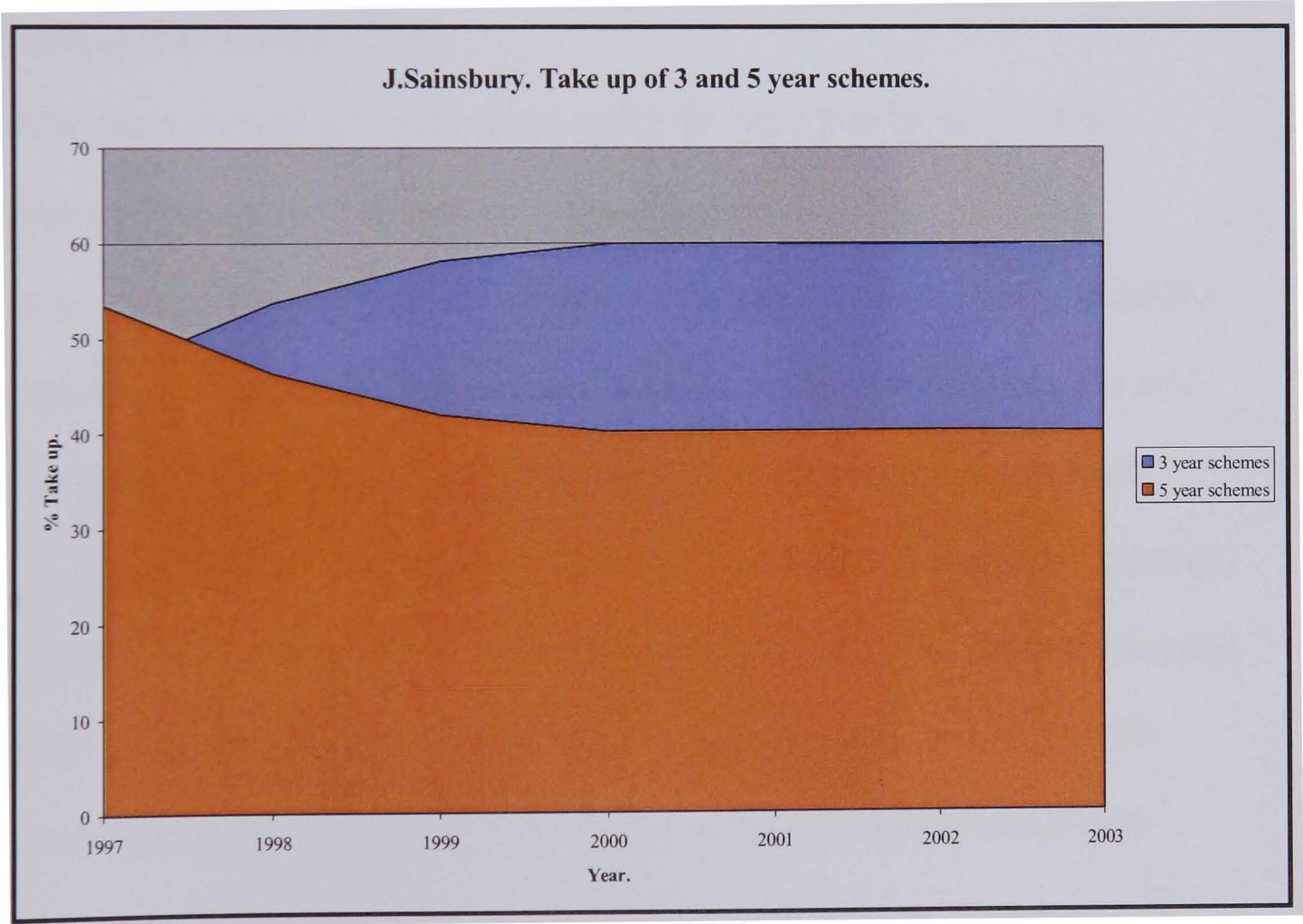


FIGURE 8.4

Take up of 3 and 5 year schemes. J.Sainsbury.

However the average monthly £s saved in table 8.2 shows a wide fluctuation year on year so one should only conclude that this data shows the direction of the change.

The most notable trend is the decline in the level of participation. (Figure 8.3). Participation has fallen from 32% to 13% over the period 1997 to 2003. This fall in participation is equivalent to 16,000 less employees participating in 2003 compared to 1997.

Another trend, shown in figure 8.4, is the interest that employees have shown in 3 year schemes compared to 5 year schemes. 3 year schemes have risen from 46.5% to 60% over the period although take up in these schemes appears to have levelled off at around 60%.

#### **8.4 EMPLOYEE TURNOVER.**

The main reason given by employees for not participating in the J.Sainsbury Sharesave scheme was that they expected to leave the company. Hence the turnover of eligible employees was measured over the year beginning November 2002 to compare the turnover of participant and non-participant employees. For the November 2002 schemes that were studied, 108,889 employees were eligible of which 15,395 were participants. By the end of the 12-month period, the original number of eligible employees had fallen to 85,639 and the number of participants had fallen to 14,157. (Data provided by the company). This gives an annual turnover for non-participants of 23.5% and a turnover of 8% for participants. This supports interviewees' main reason for not participating namely that they expect to leave the company.



*Many* employees said the fact that J.Sainsbury had a Sharesave scheme, as a benefit, did not influence them to stay with the company.

Q: Does the fact that the company have this scheme influence you to stay with the company?

A: No. (Employee M,FT,P)

Those *few* employees that did say that the presence of the Sharesave scheme influenced them to stay with the company were all participants in the scheme and were concerned as to what would happen to their savings if they left the company part way through a savings contract.

Q: Does the fact that the company have this scheme influence you to stay?

A: I think it does.

Q: Tell me why?

A: In case I leave/ left, then what would happen to what I've put in - would I lose it or would I keep it - that's what I think crosses my mind. (Employee F,FT,P)

Managers recognised that employees who were uncertain of their future with the company were unlikely to participate in the scheme.

Those that don't do it [participate], it would tend to be that they're unsure of their future with the company. (Manager)

Senior managers, however, did believe there was a retention element to the Sharesave scheme.

You are committing to the organisation because you have to be in the scheme 3 or 5 years so there is a retention element if you like, to it. (Senior manager)

**8.5 QUANTITATIVE ANALYSIS.**

Data was collected from J.Sainsbury on the participation of employees in the November 2002 Sharesave scheme by age, gender and full time/part time. The data for pay and length of service was not readily available.

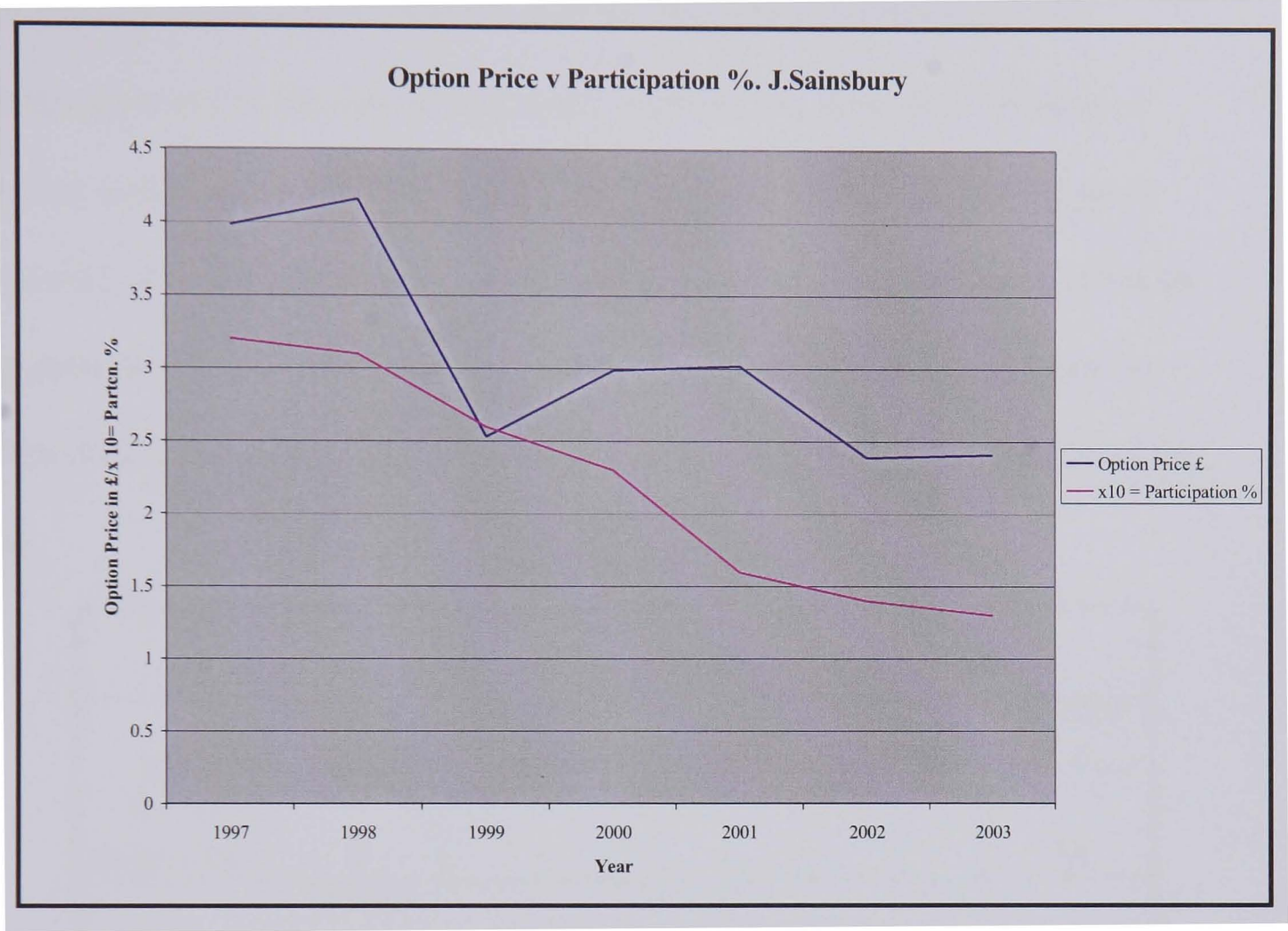
The chi-squared test (Morris,C., 1996:237-240) was applied to each set of data to see if there was a significant association between each employee characteristic and participation and the strength of this association (phi test – Black, 1999:649) was measured when an association was present.

Tables 8.7, 8.8, and 8.9 (at the end of this chapter) show that in the application of the chi-squared test, age, gender and full time/part time reject the null hypothesis at a 5% level of significance and therefore are associated with participation. The `participants as a % of the total` line in table 8.7 shows that participation rises as age rises with a fall-off in the highest category (50 and above).

The strengths of association (phi test) vary between 0.05 and 0.20. It can be concluded that age (older), and being full time influence participation in the J.Sainsbury Sharesave scheme. The phi result of 0.05 on gender means that the strength of association of gender with participation is particularly weak. The small discrepancy between the number of eligible employees to the 2002 scheme in table 8.2 and the numbers used in tables 8.7, 8.8, 8.9 is due to the source of the data being two different company databases.

Table 8.10 (at the end of this chapter) shows the application of Pearson’s coefficient `r` (Taylor, 2001:162) to the option price and

corresponding participation levels. The test shows that participation is significantly associated with the option price at a 5% level of significance, this association being the lower the option price, the lower the level of participation (See Figure 8.5).



**FIGURE 8.5**

**Option price versus participation %. J.Sainsbury.**

There is qualitative evidence from both employees and senior managers to support the trend in figure 8.5 with the suggestion that the falling business performance of the company as measured by its share price has influenced employees not to participate.

I've never seen it as worthwhile because obviously our shares used to be very high but there's not much fluctuation [so] you don't stand to make too much on them. (Employee M,FT,NP)

I would say the main factor is how they feel Sainsburys is doing rather than the stock market. But at the moment there is so much focus on the

stock market not doing so well that this is bound to influence decisions.  
(Senior manager)

### 8.6 THE INTERVIEWS.

In J.Sainsbury, three categories of employee were interviewed. Two senior managers who were responsible for the policy, procedures and administration of the Sharesave scheme, namely the Assistant Company Secretary and a senior HR manager. Secondly, four store managers were interviewed to understand their role in `delivering` the Sharesave scheme to employees and the extent that they understood their employees' views on the Sharesave scheme. Finally thirty-one employees were interviewed in six stores.

Profile of employees interviewed. J.Sainsbury.					
Pay	£4999 and under	£5000 to £6999	£7000 to £8999	£9000 to £9999	£10000 and over
No. of Employees	8	3	4	2	14
Age	19 and under	20 - 24	25 - 26	27 - 28	29 - 31
No. of Employees	4	12	3	4	8
Length of Service	1 -2 years	3 - 4 years	5 years	6 - 7 years	8 years and over
No. of Employees	4	7	7	5	8
Gender	Male		Female		
No. of Employees	15		16		
FT/PT	FT		PT		
No. of Employees	16		15		

TABLE 8.6

Profile of employees interviewed at J.Sainsbury.

The employees were characterised as male/female, full time/part time, and participants/non-participants in the scheme. Four employees were interviewed in each category except for the male/part time/participant category where only three were interviewed. The interviews took place between July 2003 and February 2004 and were conducted confidentially at the employee's place of work.

The profile of the thirty-one employees interviewed is shown in table 8.6. Nine of the interviewees were students pursuing full or part time education as well as working for J.Sainsbury. All the students were part time employees. Four of the students were participants in the Sharesave scheme and five were male.

The name given to employees in J.Sainsbury is `colleagues`. In the text of this thesis the word `employee` is normally used but in the direct quotations from employees and managers, the word `colleagues` may be used meaning `employees`.

The interviews of employees were analysed under four headings (i) the employment history of the employee (ii) views about the company (iii) views about the Sharesave scheme and (iv) the employee as a shareholder.

#### **8.6.1 The employment history of the employee.**

The answers from employees in this section derived from questions about their career to date and why they had decided to join J.Sainsbury. Unsurprisingly, there was a difference in career between full time employees and part time employees. The latter were, typically, pursuing further education or had joined J.Sainsbury part time following starting a family. Full time employees had joined either straight from school (often via the YTS

scheme) or had converted to full time following part time work while at school or college.

I worked here part time when I was 16 and doing my A levels and then took a year out for considering going to university and just stayed because I got promoted and things. (Employee F,FT,NP)

To questions as to why the employee had joined J.Sainsbury, the answers were very similar between males and females, full time and part time employees. Typically, employees joined Sainsburys because either the store was nearby or they knew a relative or friend who was working at J.Sainsbury.

Q: Why did you select Sainsburys?

A: 'Cos it's closer to home; there's a lot of people here that I know so it seems a good working environment. (Employee F,FT,NP)

My sister worked for Sainsburys; that's how I was introduced to Sainsburys and we always shopped there as children.  
(Employee F,PT,NP)

### **8.6.2 Views about the company.**

In general, interviewees were positive about the company although there was a sense of deterioration in the benefits that they were offered.

Q: So, the range of benefits has contracted is what I understand you are saying?

A: The amount of benefit as well. (Employee F,FT,NP)

The key positive was that staff were friendly and easy to work with. Employees felt fairly managed and the flexibility around the hours that they were required to work was a strong positive. For example, the flexibility around the hours enabled the employee to study or look after the young family and do part time work as well.

If say somebody needs the day off to do something, they will actually, sort of like, let them do it and let them change their day around and just work another day and its just things like that that are really pretty good. (Employee M,FT,NP)

About half the employees interviewed remembered benefits being covered at the interview and about half could not remember or said the subject was not covered. Employees were strongly positive about the company's pension scheme (J.Sainsbury offered a defined benefit pension scheme. At the time of the interviews, employees were being offered a much less advantageous scheme or the requirement to pay more towards their existing scheme.) but did not have knowledge of how J.Sainsbury's benefits package compared to other high street retailers. The presumption was that all the main retailers had similar benefit packages.

*Most* employees felt that they worked in a team or both in a team and on occasions as an individual. *Few* employees saw themselves working as individuals only.

In general, there were few differences between males/females and participants/non-participants on views about the company. Some differences were noticed between full time and part time employees, for example regarding the extent that company benefits were covered at interview, with part time employees more likely to say that benefits were not covered at interview.

Q: Was the range of benefits that Sainsburys offered explained to you at interview?

A: No, because they knew that I was a student; as I said, I think their perception of students is that they are expendable so they don't really need to. (Employee M,PT,NP)

Some part time employees also felt that they were balancing pay and benefits with convenience. So they were not always seeking out the best pay if it meant, for example, that the place of work was more inconvenient to reach.

Yes, I'm here because I'm using them just as much as they are using me ..... I can just drive here, it takes ten minutes maximum to get here and then they're flexible. (Employee M,PT,NP)

In general, managers saw the company as employees saw it although more positively. Managers thought benefits would be only briefly mentioned at interview and did not think employees typically compared benefits packages with other retailers. Managers went as far as saying that the benefits package was not seen by employees as an incentive to join or stay with the company. (Although a senior manager did see the Sharesave scheme as having `retention effects` - see the end of section 8.4)

I think its more about the here and now; and those long term sort of benefits; 'cos they are longer term, [they] are seen as perhaps windfalls along the way, sort of benefits, but they're still not perhaps benefits that would lock colleagues in to stay in at Sainsburys long term. (Manager)

Q: So you're not using the range of benefits of the company as a way of encouraging people to join Sainsburys?

A: Definitely not. (Manager)

The managers and senior managers were asked about the philosophy/culture by which J.Sainsbury managed its employees. Senior managers identified the increase in the competition and the need for the company to increasingly focus on business results especially costs and customer service. They thought this would mean that employees would feel less well cared for.



Colleagues have become much less cared for if you like and the feeling `that they will look after me, this is a job for life` has gone.  
(Senior manager)

This was contrary to *some* managers who thought that there had been a change to a more `inclusive` and `participative` or `nurturing` style of management, although *some* managers recognised that the personality of the store manager was probably more influential in the way that employees were managed in a store than the design or desire of the company at head office. Employees did not always see these business changes in a positive light considering the emphasis on business results and costs as meaning more work added to the employee.

What's changed is they're putting too much on the individual; I think, to try and do their job as well as being trained for checkouts and things like that. I don't really have enough time to do my own job especially if you've got a specialised job in Sainsburys. (Employee F,PT,NP)

### **8.6.3 Views about the Sharesave scheme.**

Senior managers described the reasons for introducing Sharesave as:

Basically to align the interests of the colleague and the shareholder and to provide a reward and an incentive. (Senior manager)

Senior managers viewed the scheme as successful citing the number of employees who have taken up the scheme as an indication of its success.

The benefits of the Sharesave scheme were described as:

I think the share schemes contribute to the extent that the employee ultimately becomes a shareholder and stakeholder in the business and therefore has a personal interest in making sure the company performs well because they know they will benefit directly as the share price goes up. (Senior manager)

Q: How does employee share schemes in general and Sharesave specifically fit with the overall HR scene in Sainsburys?

A: Sharesave fits in several ways. The first area is that it does build

loyalty. We believe it builds loyalty in that you are committing to the organisation because you have to be in the scheme for 3 or 5 years so there is a retention element, if you like, to it. There is also 'you're becoming part of the bigger team' because you are actually putting your own money into the interests of the company and the interests of the company share price; so theoretically that should influence behaviour so that people will consider 'well this is actually my money that I am wasting here so I won't waste it'. (Senior manager)

The Sharesave scheme was introduced in the interview by asking employees if they recalled seeing the invitation letter sent out in November 2002. A copy was shown to the employee. Out of the thirty-one employees interviewed, only two employees claimed not to have seen the invitation. One was a full time and one a part time employee.

The initial thoughts after receiving the invitation varied widely ranging from 'I thought it was a good idea' to 'what on earth is it'.

I just thought it was a good idea to just keep some money saving, just for, I mean, you never know what could happen around the corner so there's a little bit sort of put aside. (Employee M,PT,P)

Q: What were your thoughts when that appeared?

A: I went "another share plan – great"- and threw it away.

Q: Because you've seen it annually before?

A: Yeah, I never do them unfortunately. I don't know why. I'd probably have a lot more money now but it just doesn't appeal to me to get involved in something like that. (Employee M,PT,NP)

In *most* cases, employees sought advice on what to do from their parents especially their Mum. *Few* employees consulted people at work and only one person said she consulted her supervisor/manager. According to interviewees, parents encouraged them to take up the scheme citing the advantages of saving money as the main reason. *Many* employees said that there was no discussion about the scheme in the staff room around the time

of the invitation. *No* employee had known their manager or supervisor approach them at the time of the invitation to offer help or answer questions.

*All* the employees cited the reason that they had taken up the scheme was to save money.

For me it's saving, because I'm not a very good saver – if I had the money that's it, it's spent so I don't miss it if it's taken away.  
(Employee F,FT,P)

Participants emphasised that the deduction of a sum monthly from their earnings before they received their monthly wage packet was a particularly painless way of saving. *Most* employees claimed that they did not miss the money that they were saving to the scheme. Around half the interviewees said they were savers. *Many* of these saved to other schemes as well as or instead of saving to the Sharesave scheme. *Some* of the spenders said they could save to the Sharesave scheme if they wanted to. A *few* employees mentioned saving to a pension or mortgage meaning they couldn't save to other schemes as well.

I've just bought my own house so I can't afford to save and if I was going to save, I don't think I would do it through work.  
(Employee F,FT,NP)

The main reason for not saving to the scheme was that the employee expected to leave the company before the 3 or 5 year Sharesave scheme was completed.

Yea, I've looked through it and everything but every time I do it I think I'm not sure if I'm going to be there that long. (Employee M,PT,NP)

Another reason was that *some* employees were apprehensive of schemes to do with shares mainly seeing shares as a risk area that they did

not understand hence all documents that they received that referred to `shares` were, typically, thrown away.

I looked at it and soon as it said shares I didn't bother - I've never taken shares in the company even when we had profit share.  
(Employee M,FT,NP)

There was no discernable difference in view about saving or not saving between male and females or full time and part time employees.

Participant employees saved to both 3 year and 5 year schemes. The main reason for taking up the 3 year scheme was that the savings plan was finished earliest and the employee could `get hold of the saved money quickest`.

I don't know really - five years seems a long stretch. You've got to keep it going. Three years come a little bit quicker and you get to see the money, which is spent anyway. (Employee M,FT,P)

*Some* employees initially took up a 3 year scheme to learn how the scheme worked and then in subsequent years took up a 5 year scheme knowing that they understood it.

The three year one was the very first one that I took out and that was really because it was my first one. I thought I would give it a go and see how it went and then the year after I took out the five year one.  
(Employee F,PT,P)

The main reason for taking up the 5 year scheme was that the saving `bonus` was higher than with the 3 year scheme. *Some* employees who saved to the Sharesave scheme annually would have a mixture of 3 and 5 year schemes all running at once. The money saved by participating employees ranged from £5 to £145 per month (this latter sum was made up of half paid by the employee and half paid by his parents as a contribution to

his university education) *Many* of the employees took up the scheme in each year and therefore had two or three schemes running at once. Typically in these cases, the employee would save £5 to £25 to each scheme and therefore was saving around £15 to £75 a month to the combined schemes.

*Many* employees said they would take cash rather than shares but this decision was often reinforced by the falling share price that left many of the Sharesave scheme contracts 'below water' and so at maturity, cash was the only economic alternative.

I might be tempted to take the cash, I'm not sure on shares 'cos like it can go up and down shares so I might take the cash if I had to chose.  
(Employee F,FT,P)

*Some* employees did say that they would wait and see what the share price was at the time. A *few* employees had already decided how they would use the saved money. They would take cash irrespective of the share price even to the extent of not assessing if there was a gain to be made by taking the savings as shares and then cashing these shares immediately.

Q: Were you comparing the share price and seeing whether you're making money or not in the one that matured?

A: I don't know 'cos I wanted the money! (Employee F,PT,P)

*Most* employees were unsure if they would take up another scheme at the next available opportunity. *Some* employees would run a scheme and start another only when the first one finished. *Some* took up a scheme every year and just replaced a maturing scheme with a new one. *Most* employees assessed if they could afford another scheme at the time of the invitation letter. Participant males and females and participant full time and part time employees showed no difference in view about the above actions.

*Most* employees found the documentation that accompanied the invitation letter clear, understandable and well laid out. Unsurprisingly, there was a difference in view between participants and non- participants about the clarity of the documentation. Non-participants were more likely to say that they either did not read or did not understand the contents of the invitation. Typically, participants read through the documentation and then consulted their parents on the parts that they did not understand or were unsure of.

I found the letter quite easy to understand. Its not rocket science. It's just basically that it's a tempting offer and like I think people really should seriously consider it. (Employee M,FT,P)

*Most* employees said that the Sharesave scheme was not mentioned at their job interview or they could not remember but a *few* employees said the scheme was mentioned at the induction. There was a difference in view here between full time and part time employees. Part time employees were more likely to say that the Sharesave scheme was not covered at all. Full time employees were more likely to say that either they were not sure because the interview was too long ago or that the Sharesave scheme was covered at the induction.

Managers also confirmed that the scheme was, at best, only covered briefly in interview and that they were rarely approached for advice about the scheme.

As regards colleague interviews I think it's [Sharesave] briefly covered but I don't think its covered in great detail. (Manager)

No one's ever come to me and asked for my view on what they should do [whether to take up a Sharesave scheme offer.] (Manager)

There was confusion about the range of share schemes offered and strong negative views about the removal of the profit sharing scheme.

Employees had considered the profit sharing scheme a strong benefit and its removal was regretted. The free shares scheme, which was seen as replacing the profit sharing scheme, was considered inferior especially the long wait until the shares could be cashed. Employees were also confused by the various share schemes that the company offered, which was often complicated by additional communications like maturity and dividend letters. One employee brought to the interview all the correspondence that she had received on share schemes in the last five years!

We've lost our profit sharing scheme now and although they say they've introduced new things (free shares) they're never as good as what they had before. (Employee F, FT, NP)

Senior managers recognised the concerns that were expressed by employees about the various share schemes particularly the demise of the profit sharing scheme and the capping of the Sharesave scheme.

There is a certain amount of resentment that the Sharesave scheme is restricted to £200 per month by the company rather than the statutory £250 per month while as much, if not more in the way of shares, is given to the executive options. (Senior manager)

They [employees] were very upset when they found out the profit sharing was going..... They didn't realise that there was going to be a replacement for it ..... Between the various schemes and trying to explain the difference between them, Sharesave and partnership shares and matching shares and profit sharing, free shares; [it] can be a little difficult. (Senior manager)

Managers said that the Sharesave scheme was promoted in store, at best, in a low-key way and that it was mainly those employees who were

already saving that would notice the promotion of the scheme because they were expecting it.

Q: Would there be anything in store to advertise the scheme?

A: Yes, .... we'd have some posters appear within the store, reasonably low-key, I would say two or three posters announcing the fact that the Sharesave is due and what the price was going to be and that's as much as it would be. The rest would be an envelope to the colleagues at their home address. (Manager)

Those people that used to regularly save every year knew when that document was going to come and followed the poster that they knew was going to come..... we have less take up and those posters still come out but there are less people that are talking about those posters so less people are expecting them (Manager)

I don't think we promote it well enough any more. I think if you go back years ago we promoted it very well and take up was very high because the benefits were very tangible to people and these days the benefits aren't so tangible in terms of share price. The take up becomes lower and I think as a company we need to do more to promote the non-tangible benefits. (Manager)

#### **8.6.4 The employee as a shareholder.**

About half the employees interviewed said they received some kind of information about the company's business performance although they said information about the store's performance was much more common.

Most of the things are actually how this store is performing against the other stores in the region rather than how the company is doing as an overall. (Employee,M,FT,NP)

Comments in the newspapers, the JSJournal, in-store newsletters, notice boards and Business TV were all mentioned as means by which employees learnt how the company was performing. Unsurprisingly, participants had a better recall than non-participants on company business information especially mentioning the data contained in the company's annual report that a *few* received as shareholders. Overall, the newspapers



were the biggest source of information about the company's business performance with relatives and colleagues pointing out articles about the company when they appeared.

Q: Do you get much information here, business information about how Sainsburys the company is doing?

A: Yes, with having the shares ... you do get quite regular brochures and stuff telling you about what's going on, what they intend to do, and stuff which, so you get to see what's going on in the company.  
(Employee M,PT,P)

My Mum's actually got the - is it the Guardian? A couple of times she's pointed out bits on Sainsburys in there to me. (Employee F,FT,P)

Managers agreed that the business information received by employees was predominantly about the store and the stores in the local region.

Managers mentioned the daily management communication cascade, Business TV and notice boards as the main communications media but they recognised that there were limitations to the effectiveness of these communications and that not all employees would get the information.

To be honest the notice boards themselves aren't a good medium to communicate with people, .... business TV is a good tool but its very difficult to get a significant number of people to watch Business TV when it's on because of the trading needs of the store. (Manager)

The Intranet and Internet were mentioned as sources of information. In general both managers and employees agreed that the company's Intranet was an information tool for management. Information from the Intranet was the responsibility of the department manager to cascade to his/her staff.

Yes, there's a business update that all stores receive every week that comes down corporately by e-mail and it's on our Intranet site. Now that's cascaded to the departments; whether that always gets then cascaded to all colleagues on the department is debateable, certainly some would see it but not all, I would hazard a guess. (Manager)

No employee knew when the AGM took place or had ever attended the meeting. A *few* employees recalled getting information about what had been said at the AGM via a newsletter. A *few* employees followed the company's share price and a *few* had done so in the past but had ceased now.

Unsurprisingly, participants were more likely to follow the share price than non-participants but where the latter did follow the share price it was for a range of reasons such as their Mum had shares in the company.

Q: Do you follow the Sainsburys share price?

A: I used to follow the shares because at one point in the store we did have a notice up on the canteen saying how the shares were doing.... I must admit I don't [now], I did used to. (Employee F,FT,P)

Q: Do you have knowledge of or follow the Sainsburys share price?

A: I did

Q: OK, tell me why?

A: Because my Mum had shares in it but she sold them fairly recently. (Employee F,PT,NP)

Managers reported more interest by employees in the share price than was evidenced by the employee interviews.

I know that colleagues do follow the share price but they normally follow it by looking in the papers. (Manager)

Q: Do colleagues talk to you about the rises and falls in either Sainsbury's share price or the stock market in general?

A: At tea breaks they do but not necessarily in a business sense, its just general discussion over tea or lunch, particularly those who have shares. (Manager)

No employee who owned shares in the company understood their shareholder rights nor, obviously, exercised them. Only two employees owned shares in other companies, one owning shares in a utility and the second, shares via a mixed fund that she was putting her savings into.

Participant employees were asked if they were influenced to behave differently because they were shareholders or potential shareholders by, for example, being less wasteful themselves or challenging wastefulness by other employees. The participant employees said it did not make any difference.

Q: Does the fact that you are a shareholder influence you in the way you go about your daily work?

A: Not at all, no ..... I just try and get on with it and always have a policy of try and treat everyone the way you wish to be treated yourself.  
(Employee M,PT,P)

There were no differences in participants' views on being a shareholder between males and females or between full time and part time employees.

Employees did not mention stopping a higher priced Sharesave scheme and reinvesting the money in the following year's scheme if it had a lower option price.

There were mixed views amongst managers as to whether participant employees understood their shareholder rights.

Q: Would you expect colleagues to understand their shareholder rights?

A: I would think so - I mean I think if you're a shareholder you get plenty of information so the AGM stuff that comes out, the annual financial reports - there're all pretty self explanatory. (Manager)

Q: Do you know if colleagues who are shareholders understand their shareholder rights?

A: I wouldn't like to guess but if I was forced to guess I would probably say no.... I haven't actually asked. (Manager)

Senior manager's views about the influence of the Sharesave scheme in making the employee a `stakeholder` in the company and therefore

causing a `personal interest` in making sure the company performs well, is not borne out by the views expressed by employees.

You are part of the ownership of this company, you are not just an employee of it and that is quite a different mind-set than working for somebody else and I see it as extremely important. (Senior manager)

All the managers were participants in the Sharesave scheme.

Managers understood their shareholder rights but there was a varied reaction to exercising them. *None* of the managers attended the AGM but *most* voted.

Q: Do you exercise your shareholder rights?

A: I don't go to the meeting but I do use my form, my proxy form.

Q: Have you ever attended the AGM?

A: No I haven't, no. (Manager)

Q: Do you vote?

A: No

Q: Do you attend the AGM?

A: No

Q: Any particular reason for that?

A: Probably feel that I'm like a small fish in a really big sea. (Laughter)  
(Manager)

## 8.7 DISCUSSION.

This section discusses in more detail particular points that the quantitative and qualitative data raised in this case study.

There were different views on gender and participation between the quantitative analysis that showed an association (female gender) at a 5% level of significance and the qualitative data, which showed no differences between the views of males and females. To have a significant association between female employees and participation would require a cadre of female employees participating in the J.Sainsbury Sharesave scheme with views not

found in the male group. I found no such evidence and I therefore have concluded that this point plus the particularly weak strength of association ( $\phi = 0.05$ ) means that gender should not be considered as influencing participation at J.Sainsbury. Healey (1993:266) supports this conclusion when he says 'larger samples may lead to a decision to reject the null [hypothesis] when the actual relationship is trivial'.

The option price is correlated to participation with a falling option price linked to a falling participation level. At the time of the interviews there was considerable press comment on the success of Tesco and ASDA and the possible success of Wm.Morrison following their takeover of Safeways. The comments were all about whether J.Sainsbury would be relegated to fourth position in the retail grocery league table. The option price/participation link does have some qualitative support because a *few* employees did express concern about the share price and the performance of the company. Also a senior manager did express the view that participants who had experienced the dropping share price might be cautioning colleagues against participating in the scheme.

A: That's [the dropping participation levels] a function of the times, it is a function of the stock market and the fact that the company share price has gone down and therefore many colleagues holding shares will be talking to other colleagues saying 'I didn't do very well on these.....'

Q: So what you are suggesting is that participation is strongly influenced by share price – period?

A: It is influenced by share price, yes. (Senior Manager)

On balance, I judged that the poor publicity on the company (generally employees used the newspapers as the main source of business information on the company) and the downward trend in the share price, especially over

the past three years, (Figure 8.5) are both likely to have discouraged employees from participating in the scheme. Senior management were surprisingly unconcerned with the fall in participation, seeing the positive of 13,000 employees participating today rather than the comparison to 28,000 employees participating six years previously.

There were a number of areas where managers' views differed from their employees. There was a difference between the reasons that senior managers gave as the objective of the Sharesave scheme and employees' views as to why they took up the scheme. As described earlier, the objective of the scheme was given as to 'basically align the interests of the colleague and the shareholder and to provide a reward and an incentive'. However, employees gave no indication that they understood what being a shareholder meant. When pressed, senior managers agreed that they did not have strong evidence to confirm that the scheme was meeting its objective.

I don't think there is evidence – I haven't seen any evidence ... that share plans will make somebody work harder but I guess by implication you could say if they are that interested in it (share plans) ... then the connection between [their effort] and value of their investment coming from the company is quite easy to make but as for direct evidence of that, I can't say I have seen that. (Senior manager)

A senior manager also saw a 'retention effect' from the Sharesave scheme that was not confirmed by employees. The point that the senior manager was making was that to take part in a 3 or 5 year scheme causes retention of the employee. The turnover figures also supported the view that participants are less likely to leave the company than non-participants. However the point that is important is 'which comes first?', the scheme or the desire to stay with the company. On balance, I judged that employees

were committing (or not) to the company first and then deciding whether they took up the scheme second. I took this view because participants and non-participants both said that the scheme did not cause them to stay. Yet turnover of participants was significantly less than for non-participants. This suggests that participants had decided to stay with the company; non-participants had decided not to stay prior to making a decision on whether to take up the scheme. Hence the Sharesave scheme had no 'retention effect' since the decision to stay with the company had been made before deciding on participation in the scheme.

There were different management views about the 'style' of management that was appropriate in J.Sainsbury. A senior manager suggested that the company was changing its business imperatives to place more emphasis on being more competitive.

In the modern business world, tough decisions have to be made, businesses have to perform and for a business to perform requires individuals with the business to perform. Sainsburys has a strong culture and undercurrents of treating people fairly, consistently, supporting length of service and rewarding loyalty to the company. .... This leads to a culture where there is 'you are part of the family but you are expected to perform as well. (Senior Manager)

One manager described the style of management as:

I like to think we've a nurturing environment for our colleagues and that we have something of a family atmosphere when a store starts to mature. (Manager)

However employees and managers agreed that the personality of the store manager was the key factor in influencing the 'management style' of each store rather than a style directed from Head Office. This view would explain why different managers saw differing 'styles' as important.

Managers had a more positive view about employees' interest in the share price than was reported by employees themselves. Managers had a mixed view on whether employees understood the role of shareholder.

Managers reported that the Sharesave scheme was only promoted in a low key way at the time of the annual offer. Hence it is not surprising that employees, new to the company, were either unaware of the scheme or unclear of its advantages. Managers gave two reasons for this disinterest. Firstly, the scheme was promoted by Head Office and therefore was not seen as the responsibility of the store manager. Secondly and related to this, the store manager was not measured or targeted on Sharesave participation so other more pressing areas were given a higher priority.

The range of share schemes that the company offered and the various pieces of correspondence associated with each confused employees. For some employees this was a 'switch off' with employees throwing the correspondence away without reading it because they were fed up with letters to the home on share schemes. The scheme that employees had seen most positively, the profit sharing scheme, had been withdrawn. This was seen negatively by employees who 'blamed' the company. They did not understand that the profit sharing legislation had been withdrawn.

## **8.8 SUMMARY.**

The comparison of the J.Sainsbury case study to the model showed that the employee characteristics and attitude elements influenced participation rather than the employer elements. I also concluded that despite an association of gender to participation, the weakness of this association and the lack of supporting qualitative evidence meant that gender should not



be considered as influencing participation. Employees participated in the Sharesave scheme to save money particularly liking the savings being removed at source. Employees did not participate because they expected to leave the company within three years. The turnover of participants compared to non-participants supported this reason.

Senior managers' and managers' views differed from employees in a number of areas particularly on the objectives of the scheme, whether it had any retention effect and the extent that employees understood their shareholder rights.

The correlation between option price and the participation level was explainable by the poor business performance and negative publicity about the company. The range of share schemes that the company offered and the withdrawal of the profit sharing scheme confused employees. However, the communication of these schemes direct to the employees' home` address did ensure that employees had the greatest possibility of reading the letters although for some employees the `large amount of home correspondence` was irritating.

The next chapter studies the third case study company, Matalan, following the same format as has been used in chapter 7 and this chapter.

AGE VERSUS PARTICIPATION. J.SAINSBURY.									
AGE	19 and under	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 and above	TOTAL
Participants Observed	412	599	1061	1943	2700	2714	2175	3791	15395
Non partcpnts Observed	14412	13186	7949	9370	11330	10306	7938	18829	93320
TOTAL	14824	13785	9010	11313	14030	13020	10113	22620	108715
Participants as a % of total	3%	4%	12%	17%	19%	21%	22%	17%	
Participants Expected	2099	1952	1276	1602	1987	1844	1432	3203	15395
Non partcpnts Expected	12725	11833	7734	9711	12043	11176	8681	19417	93320
Participants (O - E)	-1687	-1353	-215	341	713	870	743	588	
Non partcpnts (O - E)	1687	1353	215	-341	-713	-870	-743	-588	
Participants (O - E) <sup>2</sup>	2845969	1830609	46225	116281	508369	756900	552049	345744	
Non partcpnts (O - E) <sup>2</sup>	2845969	1830609	46225	116281	508369	756900	552049	345744	
Participants (O - E) <sup>2</sup> /E	1356	938	36	73	256	410	386	108	3563
Non partcpnts (O - E) <sup>2</sup> /E	224	155	6	12	42	68	64	18	589
CHI-SQUARED									4152
The critical value of chi-squared from tables for v=7 and at a 5% level of significance is 14.067. The calculated value of chi-squared of 4152 means that the null hypothesis is rejected and therefore there is an association between age and participation. Phi = 0.20.									

TABLE 8.7

Age versus participation – J.Sainsbury.

<b>GENDER VERSUS PARTICIPATION. J.SAINSBURY.</b>			
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
<b>Participants Observed</b>	4604	10791	15395
<b>Non participants Observed</b>	34185	59135	93320
<b>TOTAL</b>	38789	69926	108715
<b>Participants as a % of total</b>	12%	15%	
<b>Participants Expected</b>	5493	9902	15395
<b>Non participants Expected</b>	33296	60024	93320
<b>Participants (O - E)</b>	-889	889	
<b>Non participants (O - E)</b>	889	-889	
<b>Participants (O - E)<sup>2</sup></b>	790321	790321	
<b>Non participants (O - E)<sup>2</sup></b>	790321	790321	
<b>Participants (O - E)<sup>2</sup>/E</b>	144	80	224
<b>Non participants (O - E)<sup>2</sup>/E</b>	24	13	37
<b>CHI-SQUARED</b>			261
<p>The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 261 means that the null hypothesis is rejected and therefore there is an association between gender (female) and participation. Yates' correction was tested but produced no different conclusion. Phi = 0.05.</p>			

**TABLE 8.8**

**Gender versus participation – J.Sainsbury.**

FT/PT VERSUS PARTICIPATION. J.SAINSBURY.			
	FULL TIME	PART TIME	TOTAL
Participants Observed	7480	7826	15306 (error=89)
Non participants Observed	29558	63848	93406 (error=86)
TOTAL	37038	71674	108712 (error=3)
Participants as a % of total	20%	11%	
Participants Expected	5215	10091	15306
Non participants Expected	31823	61583	93406
Participants (O - E)	2265	-2265	
Non participants (O - E)	-2265	2265	
Participants (O - E) <sup>2</sup>	5130225	5130225	
Non participants (O - E) <sup>2</sup>	5130225	5130225	
Participants (O - E) <sup>2</sup> /E	984	508	1492
Non participants (O - E) <sup>2</sup> /E	161	83	244
CHI-SQUARED			1736
<p>The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 1736 means that the null hypothesis is rejected and therefore there is an associaton between FT/PT (in this case FT) and participation. Yates' correction was tested but it produced no different conclusion. Phi = 0.13.</p>			

TABLE 8.9

FT/PT versus participation – J.Sainsbury.

Is there a correlation between option price and participation? J.Sainsbury.							
Year	Option Price	RPI	Adjusted Price	Particn.			
			X	Y	X2	Y2	XY
1997	£3.98	100.00	£3.98	32.03%	15.84	1025.92	127.48
1998	£4.16	103.01	£4.04	31.17%	16.32	971.57	125.93
1999	£2.53	104.45	£2.42	26.24%	5.86	688.54	63.5
2000	£2.99	107.83	£2.77	22.57%	7.67	509.4	62.52
2001	£3.02	108.77	£2.78	16.42%	7.73	269.62	45.65
2002	£2.39	111.65	£2.14	14.14%	4.58	199.94	30.26
2003	£2.41	114.47	£2.11	12.85%	4.45	165.12	27.11
Sum			20.24	155.4	62.45	3830.11	482.45
Sum XX	3.93	( n = 7)					
Sum YY	379.34	( n = 7)					
Sum XY	33.06	( n = 7)					
r	0.856	( v = 5)					
Critical value of r from tables is 0.754 for v=5 and at a 5% level of significance so the null hypothesis is rejected & therefore there is a correlation between option price and participation. As the option price falls, participation falls.							

TABLE 8.10

Correlation of option price and participation.

# Chapter 9.

## Case study company 3.

### Matalan.

#### 9.1 INTRODUCTION.

This chapter provides the results from the data collection in the third case study company, Matalan. Analysis of the quantitative data is by the application of the chi-squared test supported by the phi test when a significant association is revealed. The detailed quantitative calculations are shown at the end of this chapter.

The analysis of the interviews includes direct quotes from interviewees to add the clarity of the way that employee express themselves on financial participation issues. Throughout, managers' views `about what their employees thought about the scheme` are compared to the views of their employees on the same topics.

#### 9.2 THE BUSINESS.

The company's philosophy is to locate its stores in low rent out-of-town sites using stores that have a low build and fit-out cost. It uses the details of its membership to build up a loyal group of customers who can be targeted for marketing and sales activities. At the time of the company going public, there were 2.6 million customers active on the database. The company has succeeded in sourcing its own-label products directly from the manufacturer, particularly from the Far East and India, enabling it to offer them significantly



below High Street prices. The company has an impressive growth record increasing turnover and profits at a compound annual rate of around 25% and opening 10 stores per year with a target of 200 stores. By 2004, the company had reached a turnover of £1048 million (up 2.6% on 2003), a pre-profit of £61 million (down 48% on 2003), 10 million active membership customers and 178 stores. It placed itself as the UK's fifth largest clothing retailer. Matalan describes itself as `a club dedicated to Value and Service. We commit to offer our members Discounted Branded Clothing and Homewares with Quality Own Label Products at exceptional prices`.

(Matalan plc Annual Report & Financial Statements, 2004:Front inner cover)

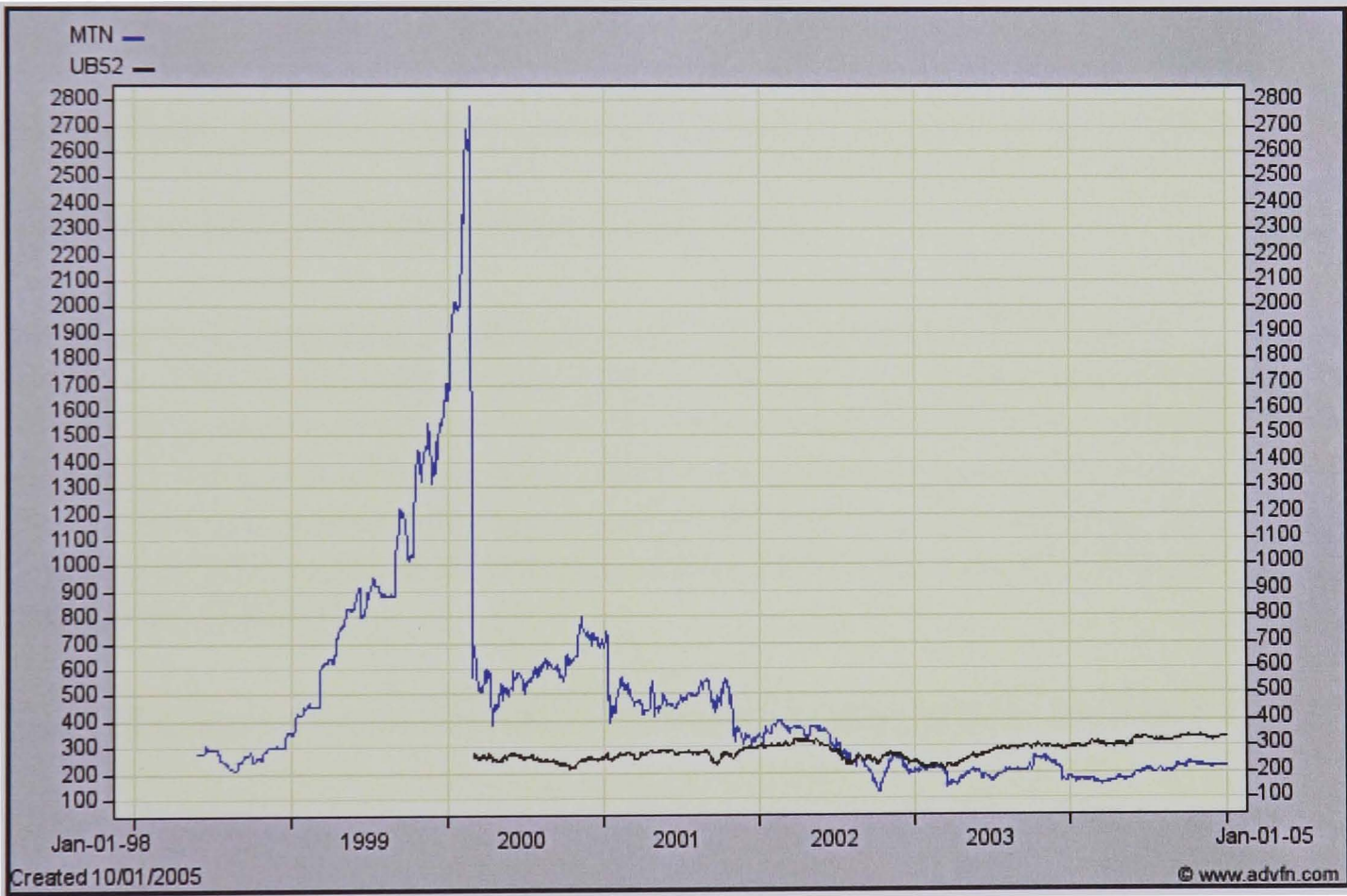


FIGURE 9.1

Matalan share price: launch to 2004.

(Y-axis = pence, X-axis = year.)

(Blue line = share price, black line = General retailers Index.)

Figure 9.1 shows that from the launch of the shares publicly, the share price had a meteoric rise to £27 and then fell back, partly as a result of a 5:1 share split in 2000 and partly because of concerns over the long-term success of the business. These concerns were reiterated in a trading statement in January 2004 that amounted to a profits warning. The financial analyst's view was that the Matalan business was under increasing competition from the low price clothing businesses of ASDA and Tesco. (Rankine, 2004:35)

The Hargreaves family owns around 50% of the share capital. John Hargreaves, the Chairman of the company, holds 20.5% personally. This dominance of the company by the Hargreaves family has had repercussions over the strategic direction of the company, which is reputed to have led to the dismissal of two Chief Executives in two years.

Matalan has been one of the big retail success stories of the past decade. The combination of founder, chairman and major shareholder, John Hargreaves and chief executive Angus Munro proved a winning one. But the Lancashire-based group has suffered a setback, with Munro and his successor Paul Mason both leaving the company within a space of two years after disagreements with Hargreaves. (Brough and Steer, 2003:11)

The company pursues a strong 'share value' approach in the way it conducts its business. This means that employees, especially store managers and above, are strongly encouraged by share options to achieve the business targets. In contrast, the general range of employee benefits and employee conditions are less than those that would be traditionally found in retail companies of a similar size and prominence. For example, the company does not offer an occupational pension scheme as one of its



benefits (the company offers access to a stakeholder pension provider) although the company would argue that it offers to its entire staff better bonuses than other companies when trading it good. This balance of the funding that is directed to employee benefits and conditions versus that which is directed to the shareholder is the issue that is said to have led, for example, to the departure of the last Chief Executive.

### **9.3 THE MATALAN SHARESAVE SCHEME.**

#### **9.3.1 The workings of the Sharesave scheme.**

The Inland Revenue approved Sharesave scheme was introduced to all employees at the time of the company's public floatation in 1998. No significant changes have been made to the plan since then. The Board approves the scheme annually at which various alternative details are presented for a decision. For example, the Board agrees the discount level of the option price. The company only offers a three-year scheme and eligibility is all employees employed on the first day of the month in which the Board agrees the final company results, normally April 1<sup>st</sup>. At the Board meeting that approves these results, the next Sharesave scheme offer is also approved. The invitation pack and all the supporting documentation are prepared in advance with the scheme's service provider, Abbey National plc. So following the Board's approval, the scheme can be initiated quickly. The option price is set as the average mid-market price on the three days prior to invitation. Employees have 28 days to complete their application form and deductions from salary start in July or August. There is no overlap with the maturing of a previous scheme so employees can replace the money ceasing from a maturing scheme with the same amount into a new scheme

in the same year. Matalan operates the normal good leaver/bad leaver rules on the Sharesave scheme for employees leaving the company.

At the public launch of the company, a number of shares were placed in an EBT and QUEST to provide shares for employees who convert their options at maturity into shares. The Matalan annual report discloses all the Sharesave schemes that the company is operating and the number of options that are held by employees. (Matalan plc Annual Report & Financial Statements, 2004:32)

At maturity, the employee is offered the alternatives of either converting the options to shares or taking cash. Abbey National offers an ISA alternative.

The policy issues and organisation of the Sharesave scheme reside in the Company Secretary's department although the HR department would be consulted before any proposal was presented to the Board.

The administration of the company's shares abides by the ABI guidelines on the % of shares offered to employees and executives.

Discounting and capping have occurred regularly since the scheme was launched in 1998. The details of this are shown in table 9.2. There have been three occasions when no discount was offered on the scheme. The first of these was the scheme that went alongside the public offering of shares in the company in 1998 and when, correctly, it was estimated that the shares would be heavily over-subscribed. In 2002, it was estimated, correctly, that the scheme would be popular and no discount was offered. In 2004, it was assumed, incorrectly, that the continued low option price (Table 9.3) would attract participation.

<b>Matalan Sharesave Scheme.</b>		
<b>Year</b>	<b>Discount Details</b>	<b>Capping Details</b>
<b>1998</b>	No discount	Capped
<b>1999</b>	Discounted but % unavailable	Capped
<b>2000</b>	Discounted but % unavailable	Not capped
<b>2001</b>	Discounted 13%	Not capped
<b>2002</b>	No discount	Capped
<b>2003</b>	Discounted 20%	Not capped
<b>2004</b>	No discount	Not capped

**TABLE 9.2**

**Matalan discount and capping details.**

Capping has also been necessary on three occasions. This is achieved by limiting the amount that can be saved monthly to the Sharesave scheme which therefore limits the number of options which are likely to be converted to shares at maturity. For example, the cap in 1999 was set at a maximum of £150 per month.

The invitation pack comes with a covering letter from John Hargreaves as Executive Chairman. He encourages employees to join the scheme by saying; `The success of Matalan plc is built upon the investment and effort of all those who work for the Company, and the Board is delighted to give an opportunity to as many Team Members as possible to own shares and share in the future success of Matalan plc`. (Matalan Sharesave scheme invitation letter dated 15/04/03) In addition, there is included a simple booklet from

Abbey National explaining the scheme, its detailed rules and an application form. Batches of invitation packs are sent to each Matalan location and employees are encouraged to pick up a pack. They are unaddressed. Posters and announcements from the store manager at his/her daily communications meeting draw employees' attention to the scheme. They are invited to pick up an invitation pack and apply. After the arrival of the invitation pack, posters alert employees to the option price applying to the scheme. The Intranet is used to alert the store manager that the packs are arriving at his/her store.

9.3.2 Performance data on the Sharesave scheme.

MATALAN SHARESAVE SCHEMES.1998 - 2004.						
YEAR	Type of Scheme	Number of Employees participating	Number of employees eligible (TOTAL)	% Participn.	Option Price	Average £s saved per month per employee
1998	3 year	622	3,602	17.3%	47p	£21.93
1999	3 year	509	4,343	11.7%	£1.10	£49.44
2000	3 year	989	6,132	16.1%	£4.75	£53.98
2001	3 year	791	8,544	9.3%	£3.75	£56.46
2002	3 year	1,271	11,201	11.3%	£3.78	£52.93
2003	3 year	1,638	13,949	11.7%	£1.58	£62.30
2004	3 year	477	13,701	3.5%	£1.73	£47.22

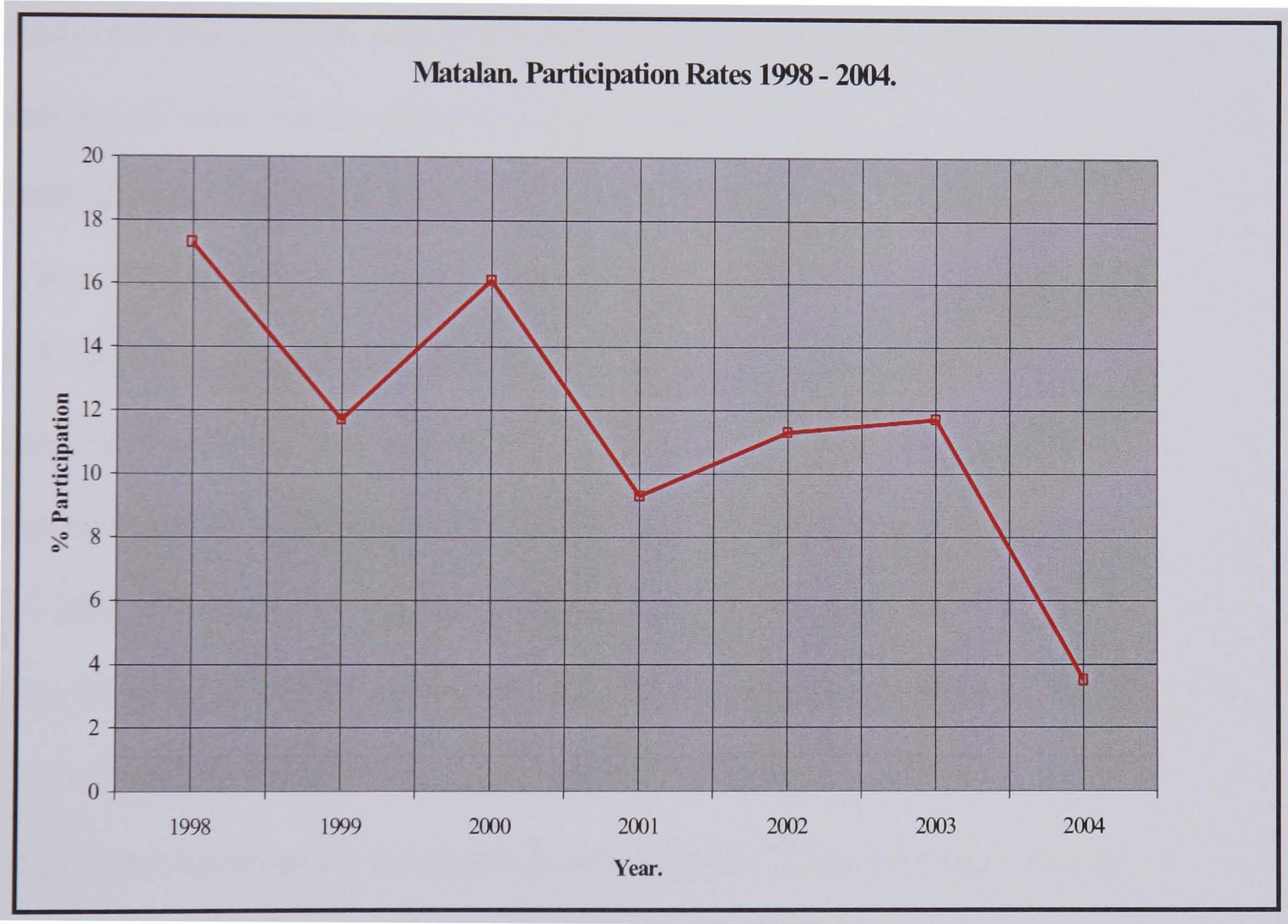
TABLE 9.3

Data on Matalan's Sharesave schemes.

Table 9.3 shows the performance of the Sharesave scheme for the period from the launch of the scheme in 1998 to 2004. All the share prices quoted in table 9.3 are based on the post 5:1 split share price.

There was clearly a significant take up of the scheme on its launch and participation has fluctuated although the number of employees participating has grown as the company has grown. (Except for year 2004)

The option price has also fluctuated from the launch price of 47p to a high of £4.75. The average amount of money that employees put into the scheme monthly has risen from £21.93 to £62.30 but the recent 2004 result has shown a decline.



**FIGURE 9.4**

**Participation rates 1998 – 2004. Matalan.**

The rate of participation (see Figure 9.4) has fluctuated but fell in 2004, when only 3.5% of the eligible employees participated in the scheme. The company explains this level as low for two reasons. Firstly, it was thought that there was a stronger than expected take-up of the scheme in 2003 due to the low option price of this offer which may have resulted in some employees over-reaching themselves and consequently not participating in the 2004 scheme. Secondly, during the 2003 to 2004 period, the company had outsourced 150-200 of its distribution drivers to an outside company thereby reducing the number of eligible employees to the Sharesave scheme. Distribution drivers were known to be particularly enthusiastic participants in the scheme and hence their non-participation in the 2004 scheme would have had an effect on participation levels.

#### **9.4 EMPLOYEE TURNOVER.**

One of the reasons given by employees at Matalan for not participating in the Sharesave scheme was that they expected to leave the company. In the April 2003 scheme that was studied, 13,949 employees were eligible to participate of which 1638 were participants. By the end of the 12-month period, 396 of these participant employees had left the company giving a turnover for participant employees of 24%. Of the eligible employees, 12,311 were non-participants. Of these, 4240 left the company in the 12-month period giving a turnover for non-participants of 34%. (Data provided by the company)

*Most* employees said that the presence of the Sharesave scheme as one of the Matalan benefits did not influence them to stay with the company.

Q: Does the fact that the company has that [Sharesave] scheme influence you to stay with the company at all?

A: I don't think so – I don't think that, in general, would influence me to stay here. I think it's more to do with obviously how I feel about working in the store, in general. (Employee M,PT,P)

## 9.5 QUANTITATIVE ANALYSIS.

Data was collected from the Matalan on the participation of employees in the April 2003 Sharesave scheme by pay, age, length of service, gender and full time/part time. The chi-squared test (Morris,C., 1996:237-240) was applied to each set of data to see if there was a significant association between each employee characteristic and participation. The strength of this association (phi test – Black, 1999:649) was measured when an association was present.

Tables 9.6, 9.7, 9.8 and 9.10 (shown at the end of this chapter) show that in the application of the chi-squared test, pay, age, length of service and full time/part time reject the null hypothesis at a 5% level of significance and therefore are associated with participation. The strengths of association vary between 0.15 and 0.27. It can be concluded that pay (higher), age (older), length of service (longer) and full time influence participation in the Matalan Sharesave scheme.

The 'participants as a % of total' line in tables 9.7 (age) and 9.8 (length of service) shows that participation rises as age and length of service rise although there is a fall-off in the highest category of age (50 and above) and length of service (20+ years).

In the case of table 9.6 (pay), there was an unexpectedly high participation level in the £4999 and below pay category, which required further investigation. Matalan was unable to explain the reason for the high



number of participants with a pay level of £4999 and below. However, the company explained that female employees on maternity leave and employees on long-term sickness would have an annual salary logged into the system as £0. Such employees are invited each year to participate in the Sharesave scheme and if they took up the scheme, their salary would show as £4999 and below. The company estimated there might be as many as one hundred participants in this category. Although this explanation does not fully clarify the data, this example shows the complexity of interpretation surrounding company employee data, which is infrequently used for analysis and is generated on a 'once-off-basis'.

Table 9.9 (shown at the end of this chapter) shows that for gender, the null hypothesis is accepted and gender and participation are not associated at a 5% level of significance.

Table 9.11 (shown at the end of this chapter) shows the application of Pearson's coefficient 'r' (Taylor, 2001:162) to the option price and participation levels. There was no association found between option price and participation at a 5% level of significance. This suggests that employees are not influenced to participate in the Sharesave scheme either by a high option price (suggesting the business is being successful), nor a low option price (suggesting employees would gain more shares at maturity).

One of the company's explanations for the low participation in 2004 was that employees had 'over-reached' themselves in 2003 when the option price was low and that had reduced their interest in participating in 2004 when the option price rose. Table 9.11 does not support the view that employees are influenced to participate or not by the level of the option price.



9.6 THE INTERVIEWS.

Profile of employees interviewed. Matalan.					
Pay	£4999 or under	£5000 to £6999	£7000 to £8999	£9000 to £9999	£10000 and over
No. of employees	13	3	10	3	3
Age	19 and under	20 - 24	25 - 26	27 - 28	29 and over
No. of employees	12	16	2	1	1
Length of Service	0 - 2 years	3 - 4 years	5 years	6 - 7 years	8 years and over
No. of employees	21	8	1	2	
Gender		Male		Female	
No. of employees		16		16	
FT/PT		FT		PT	
No. of employees		16		16	

TABLE 9.5

Profile of employees interviewed at Matalan.

In Matalan, three categories of employee were interviewed on the April 2003 Sharesave scheme. Firstly, the two senior managers who were responsible for the policy, procedures and administration of the Sharesave scheme were interviewed. They were the Company Secretary and the HR Director. Secondly, four store managers were interviewed to understand their views about the Sharesave scheme and their knowledge of the views of their employees about the scheme. Finally, thirty-two employees were interviewed in five stores. The interviews took place in October and

November 2003 and were conducted confidentially at the employee's place of work. The profile of employees interviewed is shown in table 9.5.

In discussing with the company the list of potential participant employees from which interviewees would be selected, it became clear that Matalan appoints a considerable number of its managers, especially department managers/assistant department managers, at a young age. (As young as 22 years of age in some cases.) If management trainees are included as managers, 43% of all `under 30 **participant** employees` had a job title that implied that they were managers. This made it more difficult to select interviewees who were general members of staff. It was therefore necessary to check how many of the participants listed in a store were management as opposed to general members of staff before visiting that store, to ensure there were sufficient participants who were general members of staff to warrant the visit. Of the thirty-two employees who were interviewed, one was an admin manager, two were assistant department managers, and the rest were general members of staff. Of the employees interviewed, seven were students pursuing their education alongside working for Matalan. All the students were part time employees. Five of the students were male and four of the students were participants in the Sharesave scheme.

The interviews of employees were analysed under four headings (i) the employment history of the employee (ii) views about the company (iii) views about the Sharesave scheme and (iv) the employee as a shareholder.

### 9.6.1 The employment history of the employee.

*Most* full time employees had been previously part time employees and just stayed with Matalan becoming full time employees when a vacancy became available. The main reason for staying with Matalan was because they had found further education (school, college or university) unsatisfactory and stopped their course part way through.

Education didn't really agree with me. I sort of dossed about, that sort of thing so I thought I'd work my way up the company..... I loved working here when I was part time so ... I thought its good within the company so I would like to work my way up in here. (Employee M,FT,P)

Full time employees also joined from other companies particularly if Matalan was opening a store in the area.

Well, actually I saw [the advertisement] because obviously I go past here. I saw the store being built and I went on the website, got the information and then went to the job centre and got an application form. (Employee F,FT,P)

*Some* employees applied to Matalan because a friend had recommended it while for *many* employees, they applied because of the ease of getting to the store either by walking or because the store was on a bus route.

It's not far from where I live.... I just walk, I'm just 10 minutes down the road (Employee M,PT,NP)

There was little difference in view on the employment history section between male and female employees and between participants and non-participants in the scheme. Full time employees who had joined Matalan from other companies as full time employees had had a different career to

those employees who had converted to full time employment after initially working part time for Matalan.

### **9.6.2 Views about the company.**

*Most* of the employees interviewed were positive about the company. They considered it a nice `people` environment to work in, where you can go to management with a personal problem and they would try to help.

If you've got any problems with staff or any issues or anything, they're [management] always willing to listen and they'll sort of do what they can. (Employee F,PT,P)

The hours were particularly satisfactory and the flexibility around matching the working hours to other needs, such as a part time student's education hours, was often commented upon.

When you need the extra hours they're usually happy to give them to you and when you can't work hours, they're quite flexible with things like that. (Employee M,PT,NP)

*Many* employees had little knowledge of the range of pay and benefits in other retail companies and were not able to compare. *Some* employees did have knowledge of other companies, for example Tesco's and Next, and their view was that these companies had a better benefits package.

*Most* employees said that benefits had not been mentioned at interview but a *few* employees commented that very few benefits existed when they first started their employment with Matalan.

It's only recently that they've brought in so many benefits. Really the only benefit when I first started was the discount card. Since then they've brought in so many others. (Employee M,PT,P)

*Most* employees were split in their view as to whether they worked exclusively in teams or both in teams some of the time and as individuals

some of the time. *Many* employees saw themselves as involved in the running of the store or their department with the majority seeing their department as the area they influenced most.

In my department, I would say I was quite a lot involved but not of the store. (Employee M,FT,NP)

There were no obvious differences in views about the company between males and females, part timers and full timers, participants and non-participants in the scheme.

In general, managers had more concerns about the company than did their staff.

I think it's [Matalan] fair to middling. I don't think it's going to set any high standards in the industry but at the same time I don't think we're in a position where we're going to be criticised. (Manager)

I believe its very much lip service; again because of the way the business changes. We like to think that we are doing this and that and the other for our people but I still believe it's a very selfish business. It doesn't invest a huge amount into its people. (Manager)

Managers concurred with employees' views that benefits had up until recently been poor but improvement was occurring.

I think generally the feedback is that the benefits package that we have put together isn't particularly strong at the moment across the board. (Manager)

Benefits package at Matalan has improved quite considerably over the last 12 months previous to that. So they are probably you know on a high at the moment because they've just got additional benefits worked out across all sorts of things that were never available to them before. (Manager)

Managers agreed that team working was the style that Matalan promoted in their store operation. Managers also agreed that employees

were not involved in the running of the business but did see them involved at store or department level.

I would hope that they [employees] would feel that way and certainly as store manager if I can get them to buy into where I want to be then it certainly benefits to me as store manager and the store and the customers because it all about working as a team. (Manager)

Managers were also asked about the company's philosophy in managing its employees. Broadly, managers agreed that an established philosophy had not yet been developed since the company was still young and the business was changing so fast.

We haven't done anything for very long so nothing is proven. So therefore we've got people joining this business every day and leaving but obviously people are coming from other retailers, they have seen what works and what doesn't work. (Manager)

The philosophy of the company is that the company wishes its success to be shared with its employee to encourage its employees to work harder and contribute more. (Senior Manager)

### **9.6.3 Views about the Sharesave scheme.**

Senior managers described the reason for introducing the Sharesave scheme as:

To allow employees to share in the success of the company. ... This is a scheme to encourage lower paid staff. (Senior Manager)

The Board considers employee share ownership to be an important part of its strategy for employee incentivisation. (Matalan Public Placing Document, 1998:15)

This section of the interview was introduced by asking the employees if they recalled seeing the annual invitation letter in April 2003. (They were shown the invitation.) Out of the thirty-two employees interviewed, three said

that they were unaware of the invitation. All three were female part time employees.

The interviews suggested that there were a number of variations arranged by the store manager for the distribution of the invitations. The standard method was to make the unaddressed invitations available in the staff room or from the manager's office. However, in some stores, the employee's name was put on the envelope. In some stores, the invitations were handed out by the admin manager and in some stores, employees had to collect their invitation from the receptionist and had to sign to the effect that they had received the letter.

Views about the Sharesave scheme on reading the invitation letter ranged from 'thought it a brilliant idea' to 'I didn't really have many [thoughts] at the time'.

The main reason for taking up the scheme was to save money. A *few* employees mentioned the potential share capital gain as a reason for participating.

To be honest, I've always kept an eye on the Matalan share price; looking at it, I think, it was £1.56 at the time and a year ago it had been something like £4 and just sort of kind of looking at that - wow, it might not be such a bad idea to sort of get involved with this.  
(Employee M,FT,P)

Thought I may as well put some money towards it, see what happens 'cos I know that Matalan are growing as a company so its all good.  
(Employee M,FT,P)

A *few* employees said that they did not participate because they could not afford it and a *few* employees said that they did not expect to be with the company in three years time.

I didn't have the money to be doing it at the time. I just moved out of home. (Employee F,FT,NP)

I was going to participate because I have quite a problem with saving money. I was going to put £25 a month into it but I decided not to in the end 'cos I'd just started university and I needed every penny that I could get really; that was purely the reason that I didn't do it. (Employee M,PT,NP)

All employees said the brochure and accompanying invitation letter were easy to understand. This was equally true of non-participants as participants.

I read through the first one and it all seemed fairly straightforward to me. (Employee M,FT,NP)

*Most* employees consulted relatives on whether to participate in the Sharesave scheme. Mum and Dad were the favourites. A *few* employees mentioned that there was discussion about the scheme amongst colleagues at the time of the invitation letter being issued.

I took it home, thought about it, gave it to my Mum to see what she said because I tend to make most on my decisions through my Mum. (Employee M,PT,P)

There was some [chat] yes, some people were asking if I was going to it or not. I said yes. (Employee M,PT,P)

Savings ranged from £10 to £150 per month. With one employee, his Dad was contributing half the savings invested and at the end of the period Dad would claim half of the cash or shares accrued.

*Most* employees said that the Sharesave scheme was not mentioned at interview.



Employees were split in their views as to whether loyalty or positiveness towards the company influenced them to take up the scheme. Half said it did and half said it did not influence them.

Q: Does your positiveness about the company influence you to take up the share scheme at all?]

A: Yes I would say so – I enjoy working for the company so might as well give it a go. (Employee M,PT,P)

Q: Does your positive view about the company or loyalty to the company, has it influenced you at all to take up the scheme?

A: Not really, it's just the way I am really. I enjoy working here so I always take a positive view towards things. (Employee M,FT,P)

*Most* employees had not pre-decided whether they would take cash or shares at the end of three years. *Most* said that they would decide based on the market value of the shares at the time. Unsurprisingly, participants were more enthusiastic about taking out another scheme next year although *some* of the non-participants did say they would consider taking up the scheme next time, typically depending on their financial situation at the time. A *few* participants preferred to start a new scheme when the existing scheme had finished rather than run more than one scheme in parallel. A *few* employees understood the potential for 'hunting the share price' down to the lowest option priced scheme by stopping saving to schemes that were unlikely to produce a capital gain.

Q: Another one comes out next April and what would your plan be whether to take up that one as well?

A: If the share price is – say its under £3 [per share] then I'll probably drop my first Sharesave and take up the £55 [per month] with the new one. Only because the first one I've taken, the share price was - I think it was £3.72, which at the moment I don't stand to make any money. (Employee F,FT,P)

*Many* employees saved in other ways, for example to ISAs or bank saving accounts.

Managers were unaware of the employees in their store who were participants in the scheme. Managers were positive about the value of the Sharesave scheme as a benefit.

I do sort of try and portray to the staff what a good idea it [Sharesave] is. If they can save, however little they can save, it's an opportunity. So I do think its a good benefit. (Manager)

Managers' views about why employees took up the Sharesave scheme were in line with employees' views but with a stronger emphasis on the potential capital appreciation of the shares. Their views as to why employees did not participate emphasised turnover and lack of money to invest in the scheme.

Q: So you're suggesting that the main reason that people would do this is on the basis of taking a view on the capital appreciation of the shares?]

A: Yes. (Manager)

Q: What's the company's view of that level of participation?

A: We're not surprised because we know in retail that participation is not high because of the number of young employees, part timers and the amount of turnover that you get in retail. (Senior Manager)

I don't think a lot of people have [the money] these days so I think while it's a very good scheme, it won't appeal to everyone. (Manager)

Senior managers also raised the issue of `inertia` from employees in missing the deadline for the return of the application form. This was a point mentioned by a *few* employees but not strongly emphasised.

Q: What reasons do you personally hear as to why employees do not participate in the scheme?]

A: Sometimes they don't do it just by inertia. (Senior Manager)

A: I was going to do it.

Q: So what persuaded you not to?

A: I kind of just left it and left it until it got to the cut off date and it was too late for it. (Employee F,FT,NP)

Managers were more negative about the Sharesave information than employees and considered it complex especially for those employees who were seeing the details of the scheme for the first time.

I think they try and overcomplicate it. I think, yes, the people need the information so they can make an informed choice but I think they could simplify it by just explaining it very basically rather than a big pack to read. I think it's too much information that they don't particularly need. (Manager)

#### **9.6.4 The employee as a shareholder.**

Employees said that the information that they received was predominantly about the performance of the store and the `cluster`. (Other stores in the same geographical region) There was little information about the performance of the company.

We get told how our store is doing but not really on how Matalan is doing as a whole. (Employee F,PT,P)

Information about what is happening in the company as a whole was more generally picked up through reading the newspapers or having articles pointed out to the employee from relatives.

You sometimes see things [in the newspapers] about how much money they've taken and staff turnover and things like that. (Employee M,PT,NP)

Managers agreed with employees that business information was mainly about the store.

Q: Do employees receive much business information about how the company as a whole is performing?

A: Yes, but not consistently and not across the board to all colleagues. It's something that we do talk about. We give figures out to the colleagues on a daily basis as to how the stores' performing and occasionally how the business is performing particularly when they do the results. ... There are posters on the door as you walk through so there is a feed through of information. In terms of team brief, we write the information up on a daily basis for the staff but again it's down to them to read it. (Manager)

I wouldn't say that the staff ever really talks about how Matalan is doing as a whole. (Manager)

Senior managers recognised that company information was not always available to employees.

With company information it's more difficult because we're a plc. We're always constrained by price sensitive information so we have periods during the year, which we call closed periods when we can't give out any information. (Senior Manager)

In discussing the information that employees received about the company, a *few* employees were enthused by the clear 'strategic aspirations' of the company although not all were participants so I could not suggest that these aspirations were influencing participation.

A: I think they're trying to compete with M&S. I think that is where they're aiming for.

Q: Do you mean the 'be No.2 by 2006' that I see displayed around the store? Do you think they will succeed?

A: I don't know. I mean I think the quality of stock that they're getting in and stuff is definitely improving but I mean Matalan still has its sort of discount clothing kind of image where as M&S is known for, like, quality. So I don't know if they'll ever take over from M&S but they can definitely challenge them. (Employee F,PT,NP)

Q: Does your positiveness about the company influence you to take up the scheme?

A: It did, yeah, 'cos as you walk up the stairs, there's a No.2 [of the retail clothing sector] by 2006 [poster] that was the aim of the company. (Employee M,FT,P)

Matalan is a company that is progressing, you know. Its going really good you know and they aim to be No.2 in retail and you know in three

years time who knows what. You know them shares are going to get better and better really so I thought it was a really good idea, a good company to invest in. (Employee F,PT,P)

The Intranet was not a source of business information at work for employees. Where employees used the Intranet, it was typically for details from head office about marketing and display on behalf of the department manager.

Q: Do you in fact browse the Intranet for company information?

A: I can, yeah, but I mean it all depends. When you're here for your days work you're very busy, anyway I don't really tend to think about that. (Employee F,FT)

Q: Is the Intranet used to do your daily work?

A: Not daily, but I have access to it if I need it

Q: And what sort of information do you get off the Intranet?

A: Its like, what do you call them (pause) ... offers and promotions.

Q: So typically how often would you need to go to the Intranet?

A: Normally my manager pulls it off but if she's not here, I will do it. (Employee F,FT)

Managers viewed the Intranet as a management tool, which was not open to all employees.

Q: Is the Intranet here used to communicate business information?

A: Yes

Q: So would a member of staff browse on the Intranet?

A: Not a member of staff, no. The management team use the Intranet and then communicate it to their teams on their departments.

(Manager.)

No employee had heard details in store about when the AGM took place or what was said at it. The annual report was also not seen in store nor had it been seen by any of the employees interviewed except those that were shareholders from previous completed Sharesave plans. No employee knew what his/her shareholder rights were nor, obviously, had exercised any of them.

Employees said they were not influenced in their behaviour by being a shareholder or potential shareholder.

I do work hard any way and if I see other people doing things that aren't productive or anything like that I'll let them know. But thinking about shares or anything like that doesn't affect how I work.  
(Employee M,PT,P)

Only one interviewee owned shares in another company. He was a shareholder as a result of owning an account in the Woolwich prior to it converting from a building society to a bank.

There was no difference on the above views between males and females or full time and part time employees.

Unsurprisingly, there was a difference in view between participants and non-participants on the question of following the Matalan share price. *Most* participants followed the share price, typically looking at it in the newspapers. Non-participants did not typically follow the Matalan share price.

Q: Do you follow the Matalan share price?

A: Just as and when really. My Nan reads the Mail and she has the Financial Mail on Sunday so I just have a look in that and I had a look just this weekend. (Employee F,FT,P)

Q: Do you follow the Matalan share price?

A: No. (Employee F,PT,NP)

Managers agreed that employees had little information about the AGM, never saw the annual report and probably would not understand their shareholder rights. There was one manager who had never seen the annual report.

Q: Do you get one of these? (The annual report is shown)

A: I've never seen that, I've never seen that.

Q: If you're – as a shareholder you automatically.....

A: I've never seen that, no. (Manager)

As to the share price, managers agreed that a few employees followed it and on occasions the manager might mention it in his/her daily team briefing.

Q: Would you say employees typically followed the share price?

A: A few of them would. I wouldn't say everybody. I would say the people that are doing the Sharesave would do that but no, I would say the bulk don't look at it. (Manager)

I mean being a shareholder, I always look at the share price. So I might tell them how its doing or they'll come to me and say they've read in the newspaper or that they've been seeing in the newspapers that it is going up. (Manager)

*Most* managers and senior managers participated in the Sharesave scheme. *Most* voted but *few* attended the AGM. Managers had similar reasons for participating to employees.

It's a way of saving money and making money and I generally thought that I wanted to be part of the Matalan success. I think on the whole, people view either or both of these categories [as their reasons for participating] (Senior Manager)

## **9.7 DISCUSSION.**

The picture from tables 9.7, 9.8, 9.9 and 9.10 of employees at Matalan provides the character of the company, much of which you would be able to observe when visiting a store. 58% of employees are under 30 years of age, 99% of employees have less than ten years service, 70% are female and 82% are part time. (These percentages are taken from the tables, which are only for eligible employees to the Sharesave scheme. Since eligibility is every employee employed on April 1<sup>st</sup> of a year, these numbers are taken to be a picture of all employees.) These are the features of a young company but one that has yet to establish its culture.

Q: Is it developing a [management] philosophy or culture?

A: It is but again the business is changing so quickly and we change on a week to week basis that it comes up with a great idea which then ends up getting put onto the back burner because something else comes along because we are so immature as a business, we're changing so quickly and because of that change we haven't actually developed our philosophy. (Manager)

Overall, Matalan was following a path similar to other retail companies with a strong family presence and the substantial use of young, female and part time employees.

Employees in Matalan did have positive comments to make about the company, its historical development and its products. These were all said in a context that suggested that the employee believed that the company would be successful. The historical development of the company enthused some employees. Employees had experienced the growth of the company, especially the growth in the number of stores. They believed that Matalan had created a niche in the market and were filling it on their own. A few employees also saw that this historical development might lead to a takeover bid from, say, Tesco. (As had been rumoured in the press during the interview period – see Brough and Steer, 2003:11)

The central idea of Matalan to offer 'discounted Branded Clothing and Homewares with Own label products at exceptional prices' was an aim that several employees were enthusiastic about. They had been enthused to this by both being a customer of the company, working for it and seeing at first hand the quality and price of the goods that they were selling.

A few employees mentioned the strategic aim of the company to be No. 2 in their sector by 2006. It was significant that employees both knew of this aim (it was displayed on posters in the staff areas of the store) and saw it as



important enough to raise in the interview. Some employees were clearly motivated by this company aspiration. A *few* employees also mentioned achieving capital returns from an increased share price. This is not a surprise since the Matalan's share price had a meteoric rise in the 1998 to 2000 period and some interviewees had heard stories from other employees who had made large amounts of money in this period.

Although a wide variety of positive points were made, it was not possible to conclude that employees were participating in the Sharesave scheme because they believed in the success of the company. This was partly due to the fact that non-participants as well as participants made positive comments about the company and secondly because it was difficult to distinguish between employees saying 'this is a good company to work for' as opposed to 'this is a good company to invest in'. The distinction being that the former view would mean that the employee would be pleased to work for Matalan (but not necessarily have any view about the Sharesave scheme) and the latter would mean that the employee would be pleased to invest in Matalan and therefore be inclined to participate in the Sharesave scheme.

Matalan uses extensive capping and discounting on the Sharesave scheme to 'regulate' the number of shares that potentially could be required by the schemes at maturity. Capping is transparent to employees but the level of discount on the option price is not. (Although employees could deduce it by following the company's share price at the time of the Sharesave scheme offer.) The varying level of discount was not a point

raised by employees, which might suggest that this is an area, which did not influence employees, or they were unaware of it.

## **9.8 SUMMARY.**

The employee characteristics and attitudes elements of the model influenced participation rather than the employer elements. However, the company's strategic aims, its history and its products did enthuse a number of employees although it was not possible to conclude that this influence caused participation in the Sharesave scheme. The number of participant employees on an annual pay level of £4999 and below was unexplainably high and no satisfactory basis for this was found. Although a significant association between pay and participation was found, this unexplained result might have affected the strength of association (phi) index.

`To save money` was the main reason for participating in the scheme, although employees also mentioned capital returns from a higher share price as a reason for participation. `Expecting to leave the company` and lack of money were the dominant reasons given for not participating.

The company used capping and varied the level of discount but this had little noticeable impact on employees' views.

Senior managers' objectives for having the Sharesave scheme were not mirrored in employees' views about the scheme. Employees did not seek part ownership in the company as a reason for participating in order `to share in the success of the company`. Employees stated clearly that they did not understand what being a shareholder meant or their rights as a shareholder.

The next chapter compares and contrasts firstly the three case study companies and secondly the results that came from the case study analyses.

<b>PAY VERSUS PARTICIPATION. Matalan.</b>								
	<b>£4999 and below</b>	<b>£5000 to £9999</b>	<b>£10000 to £14999</b>	<b>£15000 to £19999</b>	<b>£20000 to £24999</b>	<b>£25000 to £29999</b>	<b>£30000 and above</b>	<b>TOTAL</b>
<b>Participants Observed</b>	1242	162	44	35	52	52	51	1638
<b>Non partcpnts Observed</b>	6662	3260	1009	693	278	149	270	12321
<b>TOTAL</b>	7904	3422	1053	728	330	201	321	13959
<b>Participants as a % of total</b>	16%	5%	4%	5%	16%	26%	16%	
<b>Participants Expected</b>	927.48	401.55	123.56	85.43	38.72	23.59	37.67	1638
<b>Non partcpnts Expected</b>	6976.51	3020.45	929.44	642.57	291.28	177.42	283.33	12321
<b>Participants (O - E)</b>	314.52	-239.55	-79.56	-50.43	13.28	28.41	13.33	
<b>Non partcpnts (O - E)</b>	-314.51	239.55	79.56	50.43	-13.28	-28.42	-13.33	
<b>Participants (O - E)<sup>2</sup></b>	98920	57384	6330	2543	176	807	178	
<b>Non partcpnts (O - E)<sup>2</sup></b>	98920	57384	6330	2543	176	807	178	
<b>Participants (O - E)<sup>2</sup>/E</b>	106.65	142.9	51.23	29.77	4.55	34.2	4.73	374.03
<b>Non partcpnts (O - E)<sup>2</sup>/E</b>	14.18	19	6.81	3.96	0.6	4.59	0.63	49.77
<b>CHI-SQUARED</b>								<b>423.8</b>
<p>The critical value of chi-squared from tables for v=6 and at a 5% level of significance is 12.592. The calculated value of chi-squared of 423.8 means that the null hypothesis is rejected and therefore there is an association between pay and participation.</p> <p>Phi = 0.17</p>								

**TABLE 9.6**

**Pay versus participation – Matalan.**

AGE VERSUS PARTICIPATION. Matalan.									
AGE	19 and under	20 -24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 and above	TOTAL
Participants Observed	63	161	215	254	260	252	189	234	1628 error=10
Non partcpnts Observed	4188	2433	1052	1004	1010	887	650	1049	12273 error=48
TOTAL	4251	2594	1267	1258	1270	1139	839	1283	13901 error=58
Participants as a % of total	1%	6%	17%	20%	20%	22%	23%	18%	
Participants Expected	497.85	303.79	148.38	147.33	148.73	133.39	98.26	150.26	1628
Non partcpnts Expected	3753.15	2290.21	1118.62	1110.67	1121.26	1005.61	740.74	1132.74	12273
Participants (O - E)	-434.85	-142.79	66.62	106.67	111.27	118.61	90.74	83.74	
Non partcpnts (O - E)	434.85	142.79	-66.62	-106.67	-111.26	-118.61	-90.74	-83.74	
Participants (O - E) <sup>2</sup>	189095	20389	4438	11378	12380	14068	8234	7012	
Non partcpnts (O - E) <sup>2</sup>	189095	20389	4438	11378	12380	14068	8234	7012	
Participants (O - E) <sup>2</sup> /E	379.82	67.12	29.91	77.23	83.24	105.47	83.8	46.67	873.26
Non partcpnts (O - E) <sup>2</sup> /E	50.38	8.9	3.97	10.24	11.04	13.99	11.12	6.19	115.83
CHI-SQUARED									989.09
The critical value of chi-squared from tables for v=7 and at a 5% level of significance is 14.067. The calculated value of chi-squared of 989.09 means that the null hypothesis is rejected and therefore there is an association between age and participation. Phi = 0.27.									

TABLE 9.7

Age versus participation – Matalan.

LENGTH OF SERVICE VERSUS PARTICIPATION. Matalan.							
Length of Service	0 - 12 months	1 - 4 years	5 - 9 years	10 - 14 years	15 - 19 years	20 + years	TOTAL
Participants Observed	335	977	285	38	3	nil	1638
Non partcpnts Observed	5913	5757	584	59	5	3	12321
TOTAL	6248	6734	869	97	8	3	13959
Participants as a % of total	5%	15%	33%	39%	38%	0%	
Participants Expected	733.16	790.19	101.97	11.38	0.94	0.35	1638
Non partcpnts Expected	5514.84	5943.81	767.03	85.62	7.06	2.65	12321.01
Participants (O - E)	-398.16	186.81	183.03	26.62	2.06	-0.35	
Non partcpnts (O - E)	398.16	-186.81	-183.03	-26.62	-2.06	0.35	
Participants (O - E) <sup>2</sup>	158531	34898	33500	709	4.24	0.12	
Non partcpnts (O - E) <sup>2</sup>	158531	34898	33500	709	4.24	0.12	
Participants (O - E) <sup>2</sup> /E	216.23	44.16	328.53	62.3	4.51	0.34	656.07
Non partcpnts (O - E) <sup>2</sup> /E	28.75	5.87	43.67	8.28	0.6	0.05	87.22
							743.29
The critical value of chi-squared from tables for v=5 and at a 5% level of significance is 11.070. The calculated value of chi-squared of 743.29 means that the null hypothesis is rejected and therefore there is an association between length of service and participation. Phi = 0.23.							

**TABLE 9.8**

**Length of service versus participation – Matalan.**

GENDER VERSUS PARTICIPATION. Matalan.			
	MALE	FEMALE	TOTAL
Participants Observed	469	1166	1635 (error = 3)
Non partcpnts Observed	3685	8626	12311 error=10
TOTAL	4154	9792	13946 (error = 13)
Participants as a % of total	11%	12%	
Participants Expected	487.01	1147.99	1635
Non partcpnts Expected	3666.99	8644.01	12311
Participants (O - E)	-18.01	18.01	
Non partcpnts (O - E)	18.01	-18.01	
Participants (O - E) <sup>2</sup>	324.36	324.36	
Non partcpnts (O - E) <sup>2</sup>	324.36	324.36	
Participants (O - E) <sup>2</sup> /E	0.67	0.28	0.95
Non partcpnts (O - E) <sup>2</sup> /E	0.09	0.04	0.13
CHI-SQUARED			1.08
<p>The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 1.08 means that the null hypothesis is accepted and therefore there is no association between gender and participation. Yates' correction was tested but produced no different conclusion.</p>			

**TABLE 9.9**

**Gender versus participation – Matalan.**

FT/PT VERSUS PARTICIPATION. Matalan.			
FT/PT	FULL TIME	PART TIME	TOTAL
Participants Observed	559	1079	1638
Non partcpnts Observed	1980	10341	12321
TOTAL	2539	11420	13959
Participants as a % of total	22%	9%	
Participants Expected	297.94	1340.06	1638
Non partcpnts Expected	2241.06	10079.93	12321
Participants (O - E)	261.06	-261.06	
Non partcpnts (O - E)	-261.06	261.07	
Participants (O - E) <sup>2</sup>	68152	68152	
Non partcpnts (O - E) <sup>2</sup>	68152	68152	
Participants (O - E) <sup>2</sup> /E	228.74	50.86	279.6
Non partcpnts (O - E) <sup>2</sup> /E	30.41	6.76	37.17
CHI-SQUARED			316.77
<p>The critical value of chi-squared from tables for v=1 and at a 5% level of significance is 3.841. The calculated value of chi-squared of 316.77 means that the null hypothesis is rejected and therefore there is an association between FT/PT (in this case FT) and participation. Yates' correction was tested but it produced no different conclusion.</p> <p>Phi = 0.15.</p>			

TABLE 9.10

FT/PT versus participation – Matalan.

Is there a correlation between option price and participation? Matalan.							
Year	Option Price	RPI	Adjusted Price	Particpn			
			X	Y	X2	Y2	XY
1998	47p	100	47p	17.3%	2209	299.29	813.1
1999	110p	101.6	108p	11.7%	11664	136.89	1263.6
2000	475p	104.61	454p	16.1%	206116	259.21	7309.4
2001	375p	106.46	352p	9.3%	123904	86.49	3273.6
2002	378p	108.06	350p	11.3%	122500	127.69	3955
2003	158p	111.44	142p	11.7%	20164	136.81	1661.4
2004	173p	114.2	151	3.5%	22801	12.25	528.5
Sum			1604	80.9	509358	1058.63	18804.6
SumXX	141813	(n = 7)					
SumYY	123.7	(n = 7)					
SumXY	266.3	(n = 7)					
r	0.064	(v = 5)					
Critical value of r from tables is 0.754 at a 5% level of significance so the null hypothesis is accepted & therefore there is no correlation between the option price and participation.							

TABLE 9.11

Correlation of option price and participation.



# Chapter 10.

## Comparison of the case study companies.

### 10.1 INTRODUCTION.

This thesis uses comparison between the three case study companies as an important aspect of the research design - 'a study using more or less identical methods of two or more contrasting cases'. (Bryman and Bell, 2003:56) Hence another dimension of analysis is being considered in this chapter namely a comparison across the case study companies compared to the model. This chapter adds a deeper contextual picture and reveals some key differences, which are discussed as to whether they might have an influence on participation.

### 10.2 GENERAL COMPARISON OF THE COMPANIES.

This section sets the context of the comparison of the case study companies by looking at the working environment and employment characteristics of the case study companies.

The working environment in the stores of each case study company was different. The J.Sainsbury stores visited were mini-cities employing typically 350 to 550 employees per store. There was a range of employee facilities behind the store shopping area. These facilities included a substantial canteen where employees could take their breaks. The canteen area included a pool table, a TV set (always on but rarely watched) and a

separate smoking room. There were extra rooms for training, for handling personnel issues and a room manned by security staff with closed circuit TVs watching the store.

A typical Matalan store was a more basic design. The store would have a `large warehouse` appearance with few facilities for employees behind the customer part of the store. There would be a staff room, which would contain a drinks dispenser machine, a room for the store manager and a room for administration staff. The Matalan stores visited typically employed 100 to 150 employees per store.

The WHSmith stores were smaller than the Matalan or J.Sainsbury stores. The WHSmith stores visited typically employed 20 to 85 employees with few facilities in the smaller stores, perhaps two extra rooms at the most. The larger WHSmith stores had more facilities with four or five rooms, one of which was for the staff.

Matalan and J.Sainsbury stores were typically located in retail business parks or at easy access `out of town` locations on bypasses. With WHSmith, several types of shop were visited. The typical store was located on the High Street or in a `shopping mall`. But a number of the WHSmith's stores visited were also on railway stations and in airports. A railway station store had a different atmosphere to a High Street store. The atmosphere was far more frenetic. (One railway station store that I visited served a half million customers per month, considerably more than the high street store equivalent.) Finally, WHSmith newspaper/magazine distribution centres were visited. These were found in cheap locations near to the centre of major cities. The atmosphere again was completely different to a retail store since

there was no customer contact and a high workload had to be met at night around 3am when the newspapers arrived from the printers. The nature of the work was receiving newspapers from the printers, collating them into deliveries for the shops and reloading the sorted newspapers onto delivery vans.

In general, the profile of eligible employees in Matalan was different to those in WHSmith and J.Sainsbury. The population of employees from whom the interviewees were drawn, namely those under 30 years of age, was 38.8% of the eligible population in WHSmith, 34.6% in J.Sainsbury and 58.1% in Matalan. As to gender, female employees in WHSmith were 63.9% of the eligible population, in J.Sainsbury 64.3% and in Matalan 70.2%. Finally, for part time employees in the eligible population, WHSmith had a level of 56.2% part time employees, J.Sainsbury 65.9% and Matalan 81.8% compared to retail distribution at 47.5% (IDS 1993:7). (To be strictly accurate, the above figures are for employees under 30; however interviewees were drawn from employees 30 years of age **and** under.) Hence Matalan had a profile of eligible employees to its Sharesave scheme that had a noticeably higher level of younger, female and part time employees than the other two case study companies.

For the profile of employees **who were interviewed**, the age spread was different between J.Sainsbury and the other two companies. In J.Sainsbury 39% (12 employees) were over 26 years of age, but only 6% (2 employees) were over 26 at Matalan and no employee over this age was interviewed at WHSmith. This group of `older` interviewees at J.Sainsbury did have an effect on the qualitative data collected. I interviewed female

employees who had left J.Sainsbury to start a family and then returned. I interviewed employees who had had the experience of completing a Sharesave scheme, retaining the options as shares and were therefore able to comment on the performance of the shares since. Hence the J.Sainsbury interviews expanded the Sharesave scheme picture because a slightly older group of employees was interviewed.

Across the three case study companies, twenty-six out of the forty-five part time interviewees were students. Students were evenly distributed by company, gender and participants/non-participants. Although students were typically seeking a career outside the case study company, many did stay on after their education was finished and gain a full time job subsequently. With the students that were interviewed, there was not a bias to non-participation (14 of the interviewed students were participants); students (sometimes through the advice of their parents) did take up the Sharesave scheme although they might have been expected to have only a transitory view of remaining with the company.

Overall, the main business contrasts between the three case study companies were firstly Matalan's newness to the retail sector compared to the 100+ year histories of the other two companies and its greater employment of younger, female and part time employees. Additionally, there was a different working environment created by the store size from the J.Sainsbury 'hypermarket' store located out of town compared to the smaller WHSmith High Street stores. The latter company also had a wider range of working locations including Railway Station stores and distribution centres.

10.3 COMPARISON OF THE QUANTITATIVE RESULTS.

For element 1 of the model, pay (higher), age (older), length of service (longer) and full time were found to be significantly associated with participation where data was available. Gender was found to have no association with participation in WHSmith and Matalan and a weak association in J.Sainsbury.

Strength of association. Phi test indices.		
Company	Characteristic	Phi test indices
WHSmith	Pay	0.29
	L. of S	0.24
	Age	0.23
	Full Time	0.19
	Gender	No Assoc.
J.Sainsbury	Age	0.20
	Full Time	0.13
	Gender	0.05
Matalan	Age	0.27
	L. of S	0.23
	Pay	0.17
	Full Time	0.15
	Gender	No Assoc.

TABLE 10.1

Strength of association – phi test indices.

A way of thinking about the strength of association indices (Table 10.1) is to consider them in `groupings`. Firstly, there are the indices in the 0.20 –

0.29 range, which support the view that age, and length of service have, relatively, a `solid` influence on participation. A second grouping is the indices in the 0.13 – 0.19 range, which suggests `full time` has a more modest impact on participation. I consider this unsurprising since all three companies increasingly employed some part time employees to work regular weekly hours over Monday to Friday. Hence, although a significant association between full time and participation is found, it is not surprising that this association is not particularly strong with some groups of part time employees viewing their relationship with the company as similar to full time employees.

Thirdly, with the gender index at J.Sainsbury of 0.05, I consider the strength of association to be too weak, considered alongside the qualitative data, to be regarded as an influence. Hence I conclude that gender did not influence participation in any of the case study companies.

Finally with the indices on pay, the position is more difficult to assess because there are only two results and the data on Matalan participant employees earning less than £4999 is confusing. I am therefore unable to assess where the strength of association on pay should be positioned relative to the other characteristics.

#### **10.4 COMPARISON OF THE QUALITATIVE RESULTS.**

This section compares the interviews between the three case study companies based on the analysis format of (i) employees' views about the company (ii) employees' views about the Sharesave scheme and (iii) the employee as a shareholder.

#### **10.4.1 Employees' views about the company.**

In general, interviewees were positive about working for their companies, but had not typically heard at interview about the benefits that were offered. The benefits that were raised were the discount card (enabling employees to purchase goods from their own store at a discount. All three companies offered discount cards) and the pension scheme. WHSmith offered a defined contribution scheme, J.Sainsbury offered a defined benefit scheme that they were planning to change and Matalan did not provide a pension benefit but offered access to a stakeholder pension provider.

Managers agreed that benefits were rarely covered at interview and in J.Sainsbury did not see benefits as an incentive to join the company.

Typically employees said that they worked in teams and that there was a participative style of work located around the department (or store) in which they worked.

#### **10.4.2 Employees' views about the Sharesave scheme.**

The reasons that the three case study companies gave for having a Sharesave scheme were similar in each company with the objectives being about aligning the employee and the shareholder. These were different reasons to why employees in the case study companies participated.

Ten interviewees had never heard of the Sharesave scheme (WHSmith – 5; J.Sainsbury – 2 and Matalan – 3), which reflected positively on J.Sainsbury's method of posting the invitation to employees' home address. Eight of these interviewees were part time.

Across all interviewees, parents were the people most consulted about whether to participate in the scheme; managers and colleagues were

consulted rarely. There was little discussion about the scheme in the staff room when the invitations came out. Employees did not experience managers influencing them to join the scheme although in WHSmith, managers did say that they used various devices to make employees aware of the advantages of the scheme. (For example, getting a current participant to explain to staff why s/he had taken up the scheme.)

Reasons for participating and not participating were similar in the three case study companies although a shortage of money (as a reason for not participating) was a view expressed at Matalan but not at the other two companies.

Typically, employees in the three case study companies could not recall the Sharesave scheme being mentioned at interview. This view was confirmed by managers who said that it might only be covered at induction.

The Sharesave pack (invitation letter and brochure) inviting employees to participate in the scheme came from the Chairman in Matalan, the Chief Executive in J.Sainsbury and the Company Secretary in WHSmith. Employees did not appear to be influenced to join the scheme by the seniority of the manager sending out the invitation. Generally, interviewees were positive about the clarity of the invitation letter and brochure and said they understood the scheme. There were differences between the companies on the `maturity packs`, which explained what employees could do when the Sharesave scheme matured. WHSmith and Matalan offered the two alternatives of either to take the cash or to take shares with WHSmith providing a service through its brokers to sell the shares if immediately requested. J.Sainsbury's service also included transferring the shares to an



ISA and providing in the text of the maturity document a short explanation of the `benefits of becoming a shareholder`.

There were also differences in the way that the invitation packs were distributed to employees. J.Sainsbury posted the packs to employees' homes. Matalan and WHSmith distributed the packs at the work place.

Employees saved similar amounts to the scheme in the three companies. (WHSmith £5 - £100/mth: J.Sainsbury £5 - £145/mth: Matalan £5 - £150/mth)

Employees in all three case study companies reported that they saved in other ways and were sometimes unconvinced to save to the Sharesave scheme instead.

On views about the Sharesave scheme itself, non-participants in J.Sainsbury were less likely to read the invitation brochure and more likely to say they did not understand the scheme than participants but there was no difference on this aspect in the other two companies.

#### **10.4.3 The employee as a shareholder.**

Interviewees in WHSmith and Matalan said that the business information that they received was predominantly about the store or region. In J.Sainsbury, around half the interviewees reported receiving some business information about the company although employees, in general, followed the progress of their companies through reports in the newspapers. Both interviewees and managers agreed that the Intranet was a source of business information for managers not employees. Employees in J.Sainsbury had a better recall on company business information than non-participants but this was not seen in the other two companies.

Interviewees in all three companies were unfamiliar with the role of the shareholder, when the AGM took place or the annual report. However most interviewees who were shareholders did recall they had received an annual report. In WHSmith, all Sharesave participants (whether they are a shareholders or not) receive an annual report. Hence participants in WHSmith had a high recall about receiving the annual report.

Participants were more likely than non-participants to follow the share price although this was not seen in WHSmith.

Only three interviewees held shares in other companies and these were typically a legacy from previous demutualisations. No employee was influenced to invest in other companies' shares as a result of investing in a Sharesave scheme.

All the managers (except one) were participants in their Sharesave scheme, some voted but none attended the AGM unless it was part of their job description to attend. Only J.Sainsbury offered other 'all employee share schemes'. WHSmith and Matalan said that they were unlikely to take up the Government's SIPs schemes.

## **10.5 DISCUSSION ON COMPARING THE SHARESAVE SCHEMES.**

This section compares the case study companies' Sharesave schemes in areas that might influence differences in participation levels.

Over the periods studied, employee participation in the schemes has been typically in the 10% to 20% range (WHSmith and Matalan fell below the 10% level in 2004) for all three companies although in the case of J.Sainsbury, participation has fallen to this range from 32% in 1997.

The turnover of eligible employees to the Sharesave scheme showed some differences. For WHSmith, the participants/non-participants turnover annually was 7%/32%; for J.Sainsbury the equivalent figures were 8%/23.5% and for Matalan 24%/34%. The cause of the difference between Matalan and the other two case study companies is that Matalan has no service requirement to be eligible to participate in the Sharesave scheme. For WHSmith and J.Sainsbury, one year's service is required to be eligible for the scheme. The Matalan figures, especially the high **participants** turnover of 24% suggests that employees are more likely to leave the company in the first year and having taken out a Sharesave scheme, now cancel it. With the other two case study companies, employees who have been with the company for one year and who have decided to participate, will have a higher expectation of remaining for the three years and completing the scheme. The one year service requirement therefore seems a sensible constraint, if for no other reason than avoiding the administration of schemes for employees who have no expectation of remaining. For example, if J.Sainsbury had a zero service requirement and participant turnover levels comparable to Matalan, they would have to administer a further 11,000 applications annually, most of which would be cancelled within the year.

The service eligibility rules were a difference that might affect participation levels. With Matalan inviting all employees who were employed on the first day of the month that the scheme was launched, a larger proportion of the total employee population was invited to participate than in WHSmith and J.Sainsbury where one year's service was required. However as a percentage figure, more of Matalan's population was likely not to

participate since they were new to the company and would be uncertain whether they would stay for three years. So on balance, I conclude that the more generous service rule in Matalan would probably lead to a lower participation level (as a percentage) since a higher proportion of 'potential' non-participants will have been added. The effect of the eligibility rule on Matalan can be calculated from table 9.8. If the 0 – 12 months column is removed, then the overall participation level of 11.7% rises to 16.9%. Hence if Matalan had the same eligibility rules as WHSmith and J.Sainsbury, its participation level in year 2003 would have been 5% higher.

So overall, the service eligibility rules for the Sharesave scheme, turnover and participation are interlinked. I conclude that offering the Sharesave scheme to employees after one year's service (as compared to a zero service requirement) increases participation (as expressed as a percentage) due to the high turnover of employees (which is linked to non-participation) in the first year of service.

The case study companies were different regarding capping the number of shares offered to the Sharesave scheme and discounting the option price. It could be argued that altering these factors confuse and unsettle employees.

WHSmith set the option price at the full 20% discount to the market price, the maximum allowed by the Inland Revenue. In the years 1994 – 2004, WHSmith had never restricted the number of shares available for the Sharesave scheme. J.Sainsbury has offered the full 20% discount but capped the Sharesave offer every year since 1997. Consequently every year employees' contribution levels had been set below the IR minimum. On

occasions, Matalan had both capped the number of shares available to the Sharesave scheme and varied the level of discount between 0% and 20%. The difference between the WHSmith/J.Sainsbury's schemes and Matalan's scheme is that the terms of the former two are the same every year and have not been altered over the last five years. It is possible that maintaining the same level of discount and capping every year is important for the encouragement of employees to participate. It could also be argued that the actual level of discount is important and that if employees' participation in the scheme is paramount, then 20% discount should be offered every year and that employees might feel disadvantaged when this level is not offered especially if it was offered on the scheme in the previous year.

The influence of capping was hard to assess. Although in one or two cases employees were irritated by having their requested monthly contributions 'capped', such an eventuality only occurred at the higher levels of contribution (typically £150/ month and above) which was generally above the level of savings taken out by the group of employees from which I was interviewing.

The impact of a varying level of discount was also difficult to determine. Generally, my view is that, for the group of employees from whom I was interviewing, most were unaware whether the option price was discounted or not. Overall, I conclude that capping and varying the level of discount had little impact on the level of participation.

The method of distributing the invitation packs to employees was different between the three companies; a difference that I conclude does have an impact on the level of participation. I consider that sending the

invitation pack to employees' homes by J.Sainsbury was more likely to reach all employees and influence them to take up the scheme than the 'pick up' the invitation style of distribution in the other two companies.

The 'press comment' surrounding the business situation of each case study company was a possible influence on participation. Although all three companies were trading unsatisfactorily, I suggest that the negative publicity surrounding J.Sainsbury was higher profile than with the other two companies at the time that employees were taking a decision to participate in their Sharesave scheme. The employees interviewed in J.Sainsbury were more likely to take cash than their counterparts in the other two companies. This is partly due a falling share price which means that cash is the only economic alternative but may also be due to employees' concerns with the company's future business performance as painted by the newspapers which was employees' main source of business information.

## **10.6 CONCLUSIONS.**

Comparison of the three case study companies raised points of similarity and difference. The quantitative results were, in general, consistent across the companies and I suggested that using 'groupings' was a way to interpret the phi test indices.

For the qualitative results, differences were in the detail rather than fundamental. Some of the differences were considered to have an influence on participation (for example, differences in the method of distributing the invitation letter) and others (for example, capping and discount) were considered not to have an influence.

Comparison of the mechanics of the Sharesave schemes themselves across the three case study companies, particularly the difference in the service eligibility rules suggested an influence on participation levels, which does not easily fit with the model. This is a point developed in the next chapter.

# Chapter 11.

## The findings.

### 11.1 INTRODUCTION.

This chapter looks at the findings from the research in relation to the model, by comparison of the case study companies and from a contextual point of view.

### 11.2 FINDINGS IN RELATION TO THE MODEL.

Overall, the model was a helpful `structure` on which to relate the quantitative and qualitative analyses. This section looks at the modifications that were made to the model as a result of the reasons for participating (or not) discovered by this research.

The comparison of the three case study companies (chapter 10) identified influences on participation that did not fit easily with the four-element model, namely that different case study companies' eligibility rules for participation and the methods of distributing the invitation packs influenced the level of participation. This suggested a fifth element, which was about the mechanics of the Sharesave scheme rather than about the providers or users of the scheme. I have called this fifth element, the `characteristics of the scheme`. Having identified this element, it was realised that there were other factors that could be included under this element heading.

Unresearched in this study but raised by the National Grid Sharesave manager was the level of employees who were saving at the maximum level

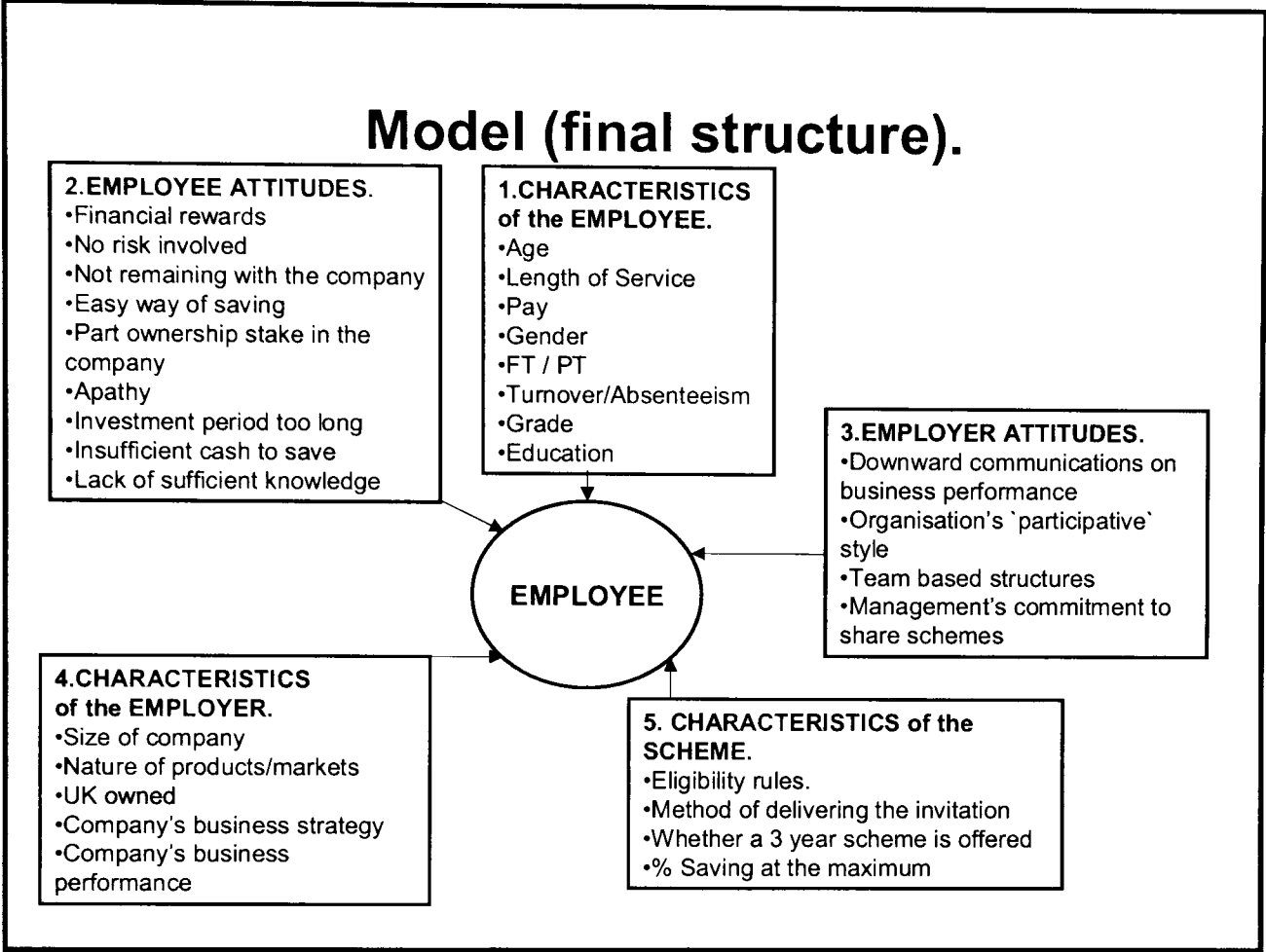


permitted. This was a factor, related to the scheme itself that, conceptually, could influence participation levels especially if the % renewal per year was not evenly spread. For example, National Grid said that 14% of their employees saved at the maximum of £250 per month. If these schemes reached maturity and were renewed unevenly, say 6% in one year and 2% per year in the remaining four years (3 and 5 year schemes were offered) then a higher participation level would be recorded in the year that 6% renewed their schemes, all other factors being equal. I have called this factor ‘% saving at the maximum’.

Also conceptually, the range of schemes that were offered to employees might influence participation levels. The three year scheme was much more popular than the five year scheme (IDS, 1999a:20). Hence it could be suggested that companies that did not offer a three year scheme but only the five year (and/or seven year) alternative would have lower participation levels when compared to companies that offered the three year alternative as well. All three case study companies offered a three year scheme so it was not possible to test this point. All these factors were added to the ‘characteristics of the scheme’, element 5 in the model.

Under element 2, there were three factors that were emphasised and/or revealed by this research which were inadequately covered by the original model (Figure 5.1) namely ‘not remaining with the company’ (as a reason for not participating), ‘an easy way to save’ (as a reason for participating) and ‘apathy’ to completing the application form (as a reason for not participating). These reasons were added to the model.

Under element 4, the business strategy of the company (Matalan) and the poor business performance of the company (J.Sainsbury), as reported in the newspapers, were factors that some employees commented upon as potentially influencing them to participate (or not) in the scheme.



**FIGURE 11.1**

**Model – final structure.**

The above changes lead to a final structure for the model shown in figure 11.1.

Overall, the two elements, employee characteristics (element 1) and employee attitudes (element 2) contained the majority of the factors that influenced employees to participate or not in their Sharesave scheme, although there were influences, albeit weak influences, found in other elements. This would suggest that differences between companies in the element 1 and 2 factors would be the likely source of the participation 'range'

noted in the research question. (Section 5.2) There is some supporting evidence for this with the higher levels of participation in companies such as BAT (high pay and low turnover) and Barclays (high pay), compared to the retail sector.

There was no clear reason given by interviewees as to why the influence of the employer elements was weak. However, this lack of influence fits with the picture that interviewees provided on their relationship with their employer. Interviewees saw the store rather than the company as their employer and expressed the view that the company as a whole had little influence on them. Senior management was represented by the store manager rather than by Board members whom interviewees rarely saw. Furthermore, interviewees sought advice from parents rather than the store manager. Many interviewees did not see the company as a long-term career as suggested by the turnover figures. Typically, interviewees saw the company as a 'job provider' not an organisation with which a long-term beneficial relationship was developed.

I have chosen not to delete any factor from the model just because it was not raised in this research. The sources of the factors in the model are explained in this thesis and research in other sectors may provide a different balance of factors to those in the retail sector. I consider it more helpful to provide a model that describes the range of factors that could influence participation (and emphasise those that did in this research) than prematurely delete some on the basis of research into three companies.

### **11.3 FINDINGS IN RELATION TO EMPLOYEE CHARACTERISTICS. (ELEMENT 1)**

This section discusses in detail the findings with respect to the main employee characteristics in element 1 that were researched.

#### **11.3.1 Findings in relation to pay.**

Pay was an influential characteristic on participation being significantly associated in both WHSmith and Matalan, the two case study companies for which data was available. This research therefore supports Baddon et al's (1989:205) contention that 'for both weekly and monthly salaried employees, participation was highest amongst the high pay end of the spectrum'.

However the unexplained high level of participants in the £4999 and below category in Matalan means that it is not possible to position the strength of association of pay with participation. (Section 10.3) It is also, in my view, too simple a conclusion to just say that the more money that employees earn, the more likely they are to participate in the Sharesave scheme. Firstly, there were many 'schemes' for employees to save to that were competing with the Sharesave scheme. Both participants and non-participants employees saved regularly or irregularly to a bank or building society account. Interestingly, most of the non-participant employees who were saving to a bank/building society account were not motivated to stop their savings to these accounts and start a Sharesave scheme. There is therefore an issue of motivation to take up the scheme or possibly a lack of understanding of its 'no risk benefits' relative to a normal savings account.

Several employees saw the J.Sainsbury pension scheme as a good benefit and one that should be taken up before saving to the Sharesave

scheme. Some employees had decided with their partners to buy a house and this used up pay. Most of the students that were interviewed were saving money for the purpose of paying their way through college or university. Some young employees were open enough to suggest that 'at 19 years of age, I want to spend any money that I have spare with my mates in the pub. I am too young to save'! So **choices** and **priorities** in the ways to save (or not) influenced whether to participate in the Sharesave scheme.

Secondly, my research did **not** support Baddon et al's (1989:238) reasons for **not** participating. Generally employees in this research did not say that they could not afford the scheme. (Although this did appear as a reason in the Matalan case study.) Their main reason for not participating was that they did not expect to be with the company at the end of a 3 year Sharesave scheme, so why start one? A number of factors can have caused this change. As I suggested in my earlier criticism of the questionnaire approach, Baddon et al (1989:238) did not, in their questionnaire, give 'I plan to leave the company' as an alternative reason for not participating so employees could not easily respond with this answer. The value of money has changed between the time Baddon et al did their research and my thesis. In this time, the minimum monthly savings level has changed from £10 in the 1980s to £5 today. Employees in the late 1980s may have found £10 per month too onerous but in 2004 the value of £5 is no more than a packet of 20 cigarettes. So affording this sum per month is less likely to be a reason for not participating today. (Saving £10 per month in November 1987 would be equivalent to saving £17.67 per month in November 2003, significantly different to the £5 minimum that is actually required – source

ONS, 2004) Since Baddon et al used the questionnaire as the main data collection method, they were not able to investigate in depth the reasons behind the `can't afford it` responses. I suggest that employees who had taken out a mortgage, saved to a building society account and/or saved to the company pension scheme might answer in a survey `I can't afford to save to the Sharesave scheme` but in reality this was because of the choices that they had taken with their money **before** deciding if there was money left over to save to a Sharesave scheme. Employees approached the issue of what to save to in a `priority` manner. I therefore conclude that higher pay gives employees a wider choice of alternatives and hence these employees are more likely to save to the Sharesave scheme because they have satisfied their priorities like a mortgage and pension. I conclude that the £5 minimum per month for the Sharesave scheme is within the reach of lower paid employees if they are motivated to take up a Sharesave scheme having considered their financial priorities.

### **11.3.2 Findings in relation to gender.**

Overall, I conclude that participation is not associated with gender. There was no association between gender and participation in WHSmith and Matalan. I found little difference in the qualitative data between males and females in the three case study companies and I do not consider that the weak association between females and participation found in J.Sainsbury contravenes this conclusion. This conclusion is also in line with the views of the pilot study Sharesave managers.

### **11.3.3 Findings in relation to turnover.**

Overall, financial participation was thought by the research literature to have an effect of reducing turnover.

In this thesis, the majority of interviewees said that the Sharesave scheme did not influence them to stay. There are no penalties for cancelling a Sharesave scheme part way through a savings contract so this would suggest that the turnover of participant and non-participant employees would be the same since participants could take out a scheme and then cancel it if they decided to leave and not be disadvantaged. However, the turnover of participants is considerably lower than non-participants. The latter give their reason for not participating as they plan to leave the company within three years. This suggests that the probable explanation for the difference in turnover figures is that employees who have decided to stay with the company are the more likely to participate in the scheme.

Hence, the findings of this thesis, for the employee groups studied, is that since employees pre-decide whether to stay with the company before deciding on whether to participate, the Sharesave scheme is unlikely to have had an impact on reducing turnover and increasing retention. This is contrary to the Government's and senior managers' positive views about the retention effects of the scheme. (See section 3.4.5)

In general, the suggestion that is being put forward (Wilson et al., 1990:201) is that the opportunity to participate in a share scheme improves employees' loyalty and commitment to the organisation and thus reduces the turnover. However, this takes no cognisance of the service eligibility rules of the scheme. In the case of this thesis, one year's service was required by

two of the case study companies before participation was permitted.

Therefore it can be argued that for companies, which have a period of service before eligibility to the scheme, there is no effect on turnover for the employees who are not eligible. Few authors (Poole and Jenkins, 1999:41) recognised eligibility differences in their research. The presence of non-eligible employees in the case study companies suggests that the situation on turnover is more complex than is recognised by the research literature.

#### **11.3.4 Findings in relation to part time employees.**

Full time employees were significantly associated with participation in the Sharesave schemes of the case study companies with a modest strength of association. Over the last twenty years the number of part time employees in the retail sector has risen which may have produced a downward influence on participation in the sector.

The interviews revealed a number of reasons why part time employees would be expected to participate less than full time employees. Firstly, as has been discussed earlier, `not remaining with the company` was the most popular reason given as to why employees did **not** participate in the scheme. The most obvious example of this would be students who are working part time to pay for their education. At the end of college or university, students would be expected to leave the part time employment and follow their chosen career. Students made up 27% of the employees that I interviewed, unsurprising since I was interviewing employees aged 30 and below. (WHSmith - 10 students, J.Sainsbury – 9 students and Matalan – 7 students.) Secondly, part time employees were less likely than full time employees to be aware of the Sharesave scheme. Part time employees



reported that the scheme was rarely mentioned at interview or at the induction training following recruitment. Part time employees were disadvantaged in the normal communications on the scheme.

Announcements about the scheme (when the invitation was issued annually) by the store manager typically took place at the daily communications meeting around 9 am. For part time employees who were not working in the store at that time, the communications of such announcements depended on word of mouth from colleagues or reading the notice boards. Finally the rise in the number of part time employees has generated a split in the meaning of a 'part time employee' with some part time employees working regularly Monday to Friday and others working in evenings and weekends only. Hence in the former case, the part time employees were 'permanent part time employees' who covered the normal weekday hours on a permanent basis but worked less hours than a standard working week. Their attitude to participating in the Sharesave scheme would be close to that of a full time employee, as they would not 'be expecting to leave the company in the next three years'.

I consider that this non-homogeneous nature of part time employees is a possible reason why the strength of association is only modest in each case study company since this group is made up of both employees who are likely to act as full time employees and employees who are likely to leave the company.

This example shows the danger of the financial literature drawing conclusions on large samples of employees without recognising that employees in a company are a mixture of groups of employees with different

`expectations`. The financial literature has not seen that the views of part time employees may be significantly different to those of full time employees. My research suggests that the `groups` within a company are more diverse and complex than even the split between part time and full time employees. In the interviews, I talked to part time employees working evenings (typically 7pm to 11pm), and nights (typically 11pm to 7am) as well as the regular Monday to Friday hours and weekends. I would suggest that all these groups probably had different expectations with respect to remaining with the company and therefore had different attitudes to participating in the Sharesave scheme. Freathy and Sparks (1993:9) recognised the point that certain hours were served by specific group of employees when they said `Sunday workers contain a high proportion of Sunday-only staff` who worked on contracts less than 10 hours per week`.

Looking at the reasons that employees said that they took up part time work revealed a number of different categories of part time employees. There were part time employees of the type who were expecting to leave their job, the date of which was predictable, for example students who knew when they would finish their studies. Then there were part time employees of the type who were `temporarily working part time until they could find a new job in another field`. When this change occurred was open ended. Finally there were part time employees where the part time work completely met their needs and they saw it as a long-term arrangement. (This was the type of employee that the manager in the earlier retail example called `permanent part time employees`.) These various sub-groups had potentially different attitudes to participating in the Sharesave scheme.

The sub-group where part time employees could predict when the work would come to an end (like unqualified students) would possibly, if they wished to save, participate in the Sharesave scheme since they knew for how long they would be working part time before moving to a permanent full time job.

For part time employees in the second category, they were typically students who had qualified but were unable to get a job in their chosen career immediately. They therefore continued to apply for jobs in their chosen field while working part time. When they might leave was open ended, (depending on when they were offered a job) so they were reluctant to take up a scheme that had a three year commitment associated with it. After several years without successfully making the career change, their enthusiasm to move to another field had waned and they expressed a view that they `were stuck in part time work`. They were also a group that often regretted that they had not started a Sharesave scheme (and/or a pension) since `here they were with 5 years plus service and no nearer to moving to another career area`.

The final group (permanent part time employees) had a much clearer career situation with stable plans to remain with the company and as such their attitude to participating in the company benefit schemes mirrored much more the attitudes of full time employees.

#### **11.3.5 Findings in relation to participants/non-participants.**

Overall, there was little difference in views between participants and non-participants except in areas associated with the Sharesave scheme itself

where participants, by taking up the scheme, took a greater interest in the business and aspects like the share price

Overall this research agreed with Baddon et al (1989:268) when they said `for the most part, the divisions of opinion on a wide range of germane matters between participants and non-participants were marginal rather than indicative of a deep-rooted split`.

#### **11.4 FINDINGS IN RELATION TO EMPLOYEE ATTITUDES. (ELEMENT 2)**

This section discusses the findings with respect to some of the employee attitudes that were found to influence participation or not.

This research revealed new views not shown on the model (compare Figure 5.4 to Figure 11.1). Employees in this research did not agree with Baddon et al's view (1989:209) that `financial rewards` was the most important reason to participate. Financial rewards of the Sharesave scheme were not mentioned in this research except in the Matalan case study where capital appreciation was mentioned as a result of the enormous share price rise in the company following its launch onto the stock exchange. Employees in this research saw `an easy way of saving` as the most important reason to participate. This was Baddon et al's (1989:237) third most popular reason. Their second most popular reason `no risk involved` was also mentioned but not strongly in this research.

The main reason for not participating was `not remaining with the company`. This was not a reason suggested by Baddon et al. (1989:238)

##### **11.4.1 Findings in relation to share ownership.**

The financial participation literature meticulously addresses the impact of share ownership on the attitudes of the employee. (See Ramsay et al

1990:183) This thesis, like Hyman et al (1989:13) found that employees were not influenced to participate in the Sharesave scheme by a desire for part ownership in their company. Employees were unaware of their rights as a shareholder and unsurprisingly did not exercise them. This might be caused by the following reasons. The group interviewed were employees at the beginning of their careers and knowledge about the financial workings of a company, especially the relevance of 'part-ownership and shares', was unlikely to be understood. Secondly, only the J.Sainsbury's invitation brochure (paragraph called 'the benefits of becoming a shareholder') explained what 'rights' owning shares in the company would bestow upon employees. Typically the brochures explained the mechanics of the Sharesave scheme and the choices between shares and cash rather than explaining the privileges that came with share ownership.

Participants were more likely than non-participants to follow their company's share price. I did not detect that this action was due to participants assuming the role of shareholder. The participants' action was wanting to be able to calculate how big was the difference between the share price and the option price at which the participant would be able to exercise his/her options at the end of the savings contract and therefore whether the options were 'above or below water'. I did detect, however, that this interest in the share price led to participants then asking 'why is the share price going up or down? '. The newspapers usually gave reasons for the changes, which then informed participants about the financial progress of the company. For example, the resignation of two Chief Executives at Matalan in a short period of time, was known to several participants as a reason why the

share price had not performed as well as had been hoped. The store manager, at the daily communications meetings, would have informed employees when the Chief Executives had left but it was the newspapers, which would give the link of these resignations to the share price.

Store managers had similar attitudes to participating in the Sharesave scheme as their employees namely a desire to save. However, store managers were different in that they knew their shareholder rights and exercised some of them. (Typically they voted and read the annual report.) Overall, employees (whether staff or store managers) were not influenced to participate because of a desire to be a part owner in the company even though, in the store managers' case, they knew their shareholder's rights.

This is an important conclusion since the literature generally (but not always) concludes that the desire for part ownership of the company does cause employees' attitudes and work performance to change. (See Ramsay et al., 1990:183.) Since my research concludes there is no association between a desire to participate and a desire for part ownership of the company via shares, I must conclude that, for the employee groups researched, participating in the Sharesave scheme does not influence employees' work attitude or performance and therefore business performance is not influenced by the presence of the Sharesave scheme. Employees in the interviews confirmed this point.

The whole idea of linking shareholder interest by the employee (as generated by financial participation schemes) to improved company performance is based on the assumption that 'wanting to be part of the company, influences the employee to work harder'. (See Ramsay et al.,

1990:183) 'Wanting to be part of the company' suggested a positive attitude by employees to their employers. However, Baddon et al (1989:23) did not find participants as having a more positive attitude to their employer than non-participants. My research supported this perspective.

The story of two stone masons one of whom saw himself as cutting blocks of stone and the other as building a cathedral is mirrored here in the attitude of employees to the influence of the company on them. Employees, in general, saw themselves as 'stone cutters' not 'cathedral builders'. They did not see themselves, via financial participation, as becoming part of the wider company. Only two employees mentioned 'that they wanted to be part of the company and its success' as a reason for participating in the Sharesave scheme. Both were senior managers.

My findings suggest that employees take up participation in Sharesave schemes on the basis of 'enlightened self-interest'. Even the evidence found at Matalan to support the influence of element 4 of the model (nature of products and historical development) could be argued that employees were deciding that participating in financial schemes was a 'I cannot lose' decision. Namely, the employee would gain if either Matalan grew in its niche position in the market or if the company was taken over.

It can also be argued that employers are not totally without impact on participation rates. Employers set pay rates and recruit the level of part time employees, (participation is statistically linked to pay and full time.) although market forces on the employers influence these factors rather than employers set them in isolation. The employer is also colluding with the attitudes of employees by not following through their stated objectives for

having Sharesave schemes. If, typically, the objective of having a Sharesave scheme is `to align the interests of the employee and the shareholder and share in the future success of the company` then it follows that at interview, probably, and certainly at the induction of new employees, this aspect of the company's benefits package should be universally covered. Additionally, by not ensuring all employees receive an invitation annually and giving the store manager no information on non-participants in his/her store, employers are not maximising the impact of the financial participation scheme on employees. Communications on the wider company is also an area where the employers' actions are weak if their desire is to `align employees' interests with the shareholder`. Typically, corporate information is only twice per year covering the interim and final results although it might form part of a company newsletter. In the case of WHSmith, they also issued the annual report to participants in the Sharesave scheme whether or not they eventually became a shareholder.

In general, employees approached financial participation from a `what's in it for me` position and the overall impact of corporate actions (rather than individual store manager's actions) colluded with this attitude by giving the impression that `if the employee is not interested (in picking up an invitation or taking out a no risk saving scheme at only £5 per month) then it is up to him/her`. Hyman et al (1989:13) described the employees' `apparent motives behind SAYE involvement, [as] orientated more towards financial opportunism rather than symbolic expressions of identification with the company or its policies`. My research supports this view.



#### 11.4.2 Findings in relation to apathy.

Apathy/inertia (for example, not completing the application form for the scheme in time) was a reason that was raised by Haliassos and Bertaut (1995:1126) and one senior manager as to why more employees might not participate in the scheme. There was some qualitative evidence to support this reason. A few employees did say that they did not participate because they had `not got round to filling in the application form in time`. Also in a different context, apathy was raised by one J.Sainsbury store manager when discussing the introduction of the free shares scheme. Because of the poor response to the invitation to apply for free shares (which provided shares for employees in the future at no risk or payment from the employee), Head Office had asked the store manager to `chase-up non-applicants`. This store manager said he was surprised at the apathy that he encountered to completing an application form for a free financial reward. He said that he found that even some of his own management team had failed to complete the form. This point can be considered alongside the system by which the monthly payments to the Sharesave scheme are deducted at source, which universally received positive comments from employees. All the employees who made comments on the `deduction at source` mechanism were participants. Employees considered this system as `positively forcing them to save` and after a few months `they did not miss the money`. From many employees, the sense of these comments was `if the money is not removed before I get it, then I won't be able to save`.

There was a debate in the press at the time of writing about `whether compulsorily forcing employees to contribute to their company's pension

scheme as a part of their contract of employment` is a proper response to the growing apathy on pensions. Montagu-Smith (2004a:32) reported this as `apathy is a reason for falling pension savings according to actuarial firm Watson Wyatt, which showed that companies automatically enrolling staff into pension schemes boast membership of 95% compared to 60% for those that did not`.

This research suggests that apathy/inertia to company benefit schemes does exist and that employees would not be averse to a level of compulsion on key schemes like pensions to overcome this barrier.

### **11.5 FINDINGS IN RELATION TO EMPLOYER ATTITUDES. (ELEMENT 3)**

Employer attitudes were a weak influence on participation. Typically, employer attitudes did not influence employees to participate in their company's Sharesave scheme. Few aspects of the employers' relationship with their employees influenced employees at a company level. Since a Sharesave scheme's financial value to the employee was based on the company's performance and the employees' main association was with his/her store, it was not surprising that the wider company influence on the employee to participate was weak.

#### **11.5.1 Findings in relation to the objectives of the schemes.**

The case study companies and the pilot study companies gave the statements in table 11.2 as the objectives of their Sharesave schemes.

They show both similarities and differences to Smith's research (Smith, 1986:382) that listed the following as the top three `objectives` for Sharesave schemes: (i) to make employees feel they are part of the company, (ii) to

make employees more profit conscious and (iii) to increase employees sense of commitment to [the] company.

The case study and pilot study companies had a desire to make employees feel part of the company, but their objectives were more about employees gaining share ownership, aligning the interests of the employee and the shareholder and sharing in the future success of the company.

THE OBJECTIVES OF COMPANIES' SHARESAVE SCHEMES.	
-	Encouraging employees to have a stake in the company, to be aligned with the shareholders, and motivated by a vested interest in helping the share price go up. (WHSmith)
-	To encourage employees to save and belong to the sharesave plans by continual purchasing of plans. (Royal Sun Alliance)
-	Providing employees with the opportunity to invest in the company in a safe/no risk way and share in the future success of the company. (AstraZeneca)
-	Encouraging wider share ownership. (Barclays)
-	To help employees to become shareholders. (BAT)
-	Making employees more interested in the company and its share performance. (British Airways)
-	Motivating employees and promoting ownership of shares in the company. (BAE Systems)
-	To align the interests of the colleague [employee] and the shareholder and to provide a reward and an incentive. (J.Sainsbury)
-	To allow employees to share in the success of the company. (Matalan)

TABLE 11.2

The objectives of companies' Sharesave schemes.

The share ownership/shareholder aspect did not feature in Smith's work (ibid). The benefits in her work were described more in terms of profitability and productivity.

A key point from looking at the objectives of these Sharesave schemes was that neither the case study companies nor the pilot study companies nor Smith's work (ibid) suggested objectives that were the reasons that **employees**, in this research, said that they participated. There was a dissonance between the company's views as to why they had Sharesave schemes and why employees participated in them. Employees participated to 'save money'. Only in the Royal Sun Alliance statement is the idea of saving mentioned.

The typical company objective was that the Sharesave scheme would promote share ownership and the alignment of the interests of employees and shareholders. Employees showed little interest in the share aspect of the scheme and just saw it as a no-risk way of saving. They were not interested in the 'shares' side of the scheme other than if taking shares netted them a higher financial reward. Most employees interviewed did not understand the share ownership aspect of the scheme.

Senior managers did not have clear views on how they measured the achievement of the objectives of their Sharesave schemes. Typically, the number of employees participating was given as the reason that the scheme was successful. However for the three case study companies, the participation levels, over the last 5 to 10 years, had at best been stable and at worst declining. These findings are contrary to ProShare's (1999) view 'that share schemes met or exceeded company objectives' [for the scheme].

### **11.5.2 Findings in relation to communications of the scheme.**

`Lack of sufficient knowledge` of the scheme was a reason that was voiced by the financial participation literature as to why employees did not participate. (Ramsay et al, 1990:195) This research suggested that `lack of sufficient knowledge` had many facets.

Firstly, there was the annual invitation communication itself. My research suggested that, in general, employees found the letter/brochure that invited them to participate clear and easy to read. Therefore this was not a factor influencing non-participation. The store managers were generally more critical about the clarity of the invitation letter although they confirmed that employees did not often ask them for advice about the invitation.

Managers that I interviewed were not aware of the increasing FSA regulation associated with `advising on shares` (see section 3.4.4). However the Company Secretaries that I spoke to as part of the research project were acutely aware of the point and saw the need to increasingly alert managers to the dangers in this area. I therefore conclude that managers in future may become increasingly nervous of discussing the Sharesave scheme in detail with their staff for `fear of stepping into a forbidden area that they do not fully understand`.

Secondly there was the mechanism by which the invitation was `delivered` to the employee. Here the communication was poor. Other than in J.Sainsbury (who distributed the invitation letter to the employee's home), the predominant mechanism for collecting the invitation letter in Matalan and WHSmith depended on obtaining the invitation letter from the manager's office or the staff room. For part time employees who might be in the store

only once per week, they were often unaware that the invitation was available to them in the manager's office or it had been thrown away having lain in the staff room for nearly a week. To some interviewees who were on their first scheme, it came as a surprise that a Sharesave scheme was issued every year. However once signed up to taking out a scheme regularly, employees became much more aware of when to expect the next scheme to be launched. I detected a resistance by two of the case study companies to solve this problem because of the difficulty in keeping the addresses of all the part time employees up to date and the cost of distributing the invitations via a route other than the work place. Overall, the communication of the Sharesave scheme invitation had typically become repetitious and was too centred on employees who were familiar with the scheme or whose hours were the regular 9am to 5pm Monday to Friday.

Thirdly there was the downward communications about the company. All three case study companies held regular communications, which were daily in J.Sainsbury, Matalan and the larger WHSmith stores. For the smaller WHSmith stores, downward communications depended on the manager talking to staff on a one-to-one basis. Employees said that downward communications typically gave performance information about the store, possibly the region but rarely the company. Store managers agreed that downward communications was generally about the store or region. Employees, typically, obtained information about the progress of the company if they read the business comments in the newspapers. (Business TV and in-house magazines were also available in some of the case study companies.) Downward communications because it was store-orientated, did

not influence participation, rather participation was more likely to lead to a greater interest in the business affairs of the company, which were discovered, typically, from sources outside the company.

Overall, Haliassos and Bertaut's (1995:1126) recommendation that 'our findings imply that a broad stockholder base requires extensive initial advertising and continuous flow of information to new potential entrants' was not found in the three case study companies. The information flow on Sharesave schemes was typically repetitious and only occurred at the introduction and end of a scheme.

The interviews also looked at whether employees could and did use the Intranet to enhance their knowledge of the company's business situation. In general, the use of the Intranet by general members of staff (where it occurred) was for operational reasons. Employees typically said that the Intranet was a management tool and managers agreed with this view.

### **11.5.3 Findings in relation to managements' commitment.**

Managements' commitment to the scheme was manifested by a senior manager signing the invitation letter and by some store managers' encouragement to employees to participate at the time of the invitation. Employees were not influenced by managements' show of commitment. For example, employees did not typically consult their manager/supervisor for advice on the scheme. They consulted their Mum and/or Dad on questions about the scheme and whether they should participate.

However store managers had differing views about their role in encouraging employees to join the scheme. Since all store managers except one participated in the Sharesave scheme, it was a benefit that clearly store

managers believed in. Differences occurred because store managers had differing views on their responsibility for encouraging employees to join the scheme. They saw the scheme as a corporate scheme. They were led to this view because no data was made available to them on who in their store participated in the scheme and they were not targeted on participation. So most store managers were enthusiastic because they, in the role of an employee, thought the scheme was an excellent benefit and wished to share this belief with other employees in the store. A few were unenthusiastic because they did not see the scheme as their responsibility in the role of a manager although as an employee they might participate.

Managements' enthusiasm for the Sharesave scheme was not demonstrated at the job interview stage to encourage recruits to join the company since it was rarely mentioned. One store manager expressed the view that only the hourly pay rates, not company benefits, encouraged employees to join the company hence it was not important to describe the benefits package to potential new recruits.

It came as a surprise that the employer had such a weak influence on the employees' decision to participate. The literature (for example, US GAO, 1987:3) suggested that corporate performance improves when financial participation is introduced **and** a participative style of management is in place as well. This suggested that the participative environment in which the employee works influenced him/her to contribute more. Or put another way, the employers' attitude, in having this participative style, influenced the employee. A participative style of work and team based structures were present in all three case study companies. However employees said that



these structures were all store or department based and did not provide a wider involvement in the company as a whole, which might have influenced them to participate in the scheme. Managers agreed that a participative work style and team based structures were generally department or store based.

#### **11.6 FINDINGS IN RELATION TO EMPLOYER CHARACTERISTICS. (ELEMENT 4)**

This element was a weak influence on employees to participate in the Sharesave scheme. Although in two of the case study companies (Matalan and WHSmith), the products of the company were mentioned as a reason 'why the employee joined the company', it was only in Matalan that the nature of the company and its past and future development were influential on employees. The 'low price/good quality' concept of Matalan's products enthused a number of employees to view Matalan as having a niche place in the market. The vision of being number 2 retailer by 2006 further convinced some employees to invest in the company's future, with the Sharesave scheme being a 'no risk' means of achieving this. It was, however, difficult to determine if the influence was that Matalan was a good place to be employed or a good place to invest in.

The correlation of participation and option price at J.Sainsbury (as the option price has fallen, participation has fallen) can be argued to be another example of the 'characteristics of the employer' influencing participation, this time in a negative way. In the way that employees in Matalan are influenced to participate due to seeing a bright future for the company, J.Sainsbury's employees saw a dark future as a reason for not participating.

## 11.7 FINDINGS IN RELATION TO WEALTH.

The findings from this research did shed light on employees' understanding of and interest in the different types of assets.

I found a strong ethos amongst many employees to save. Many non-participants saved in other ways i.e. to bank and building society savings accounts but were not convinced of the advantages of Sharesave schemes over their current ways of saving. So the issue was not whether to save or not but about what was the best means by which to save.

This research suggested that employees' actions followed Hamnett and Seavers' (1996:352) 'wealth band' concept of initially saving to savings accounts then pensions, then purchasing their own house. The Sharesave scheme might be considered when these steps had been fulfilled.

And so at the moment a lot of my spare money is going into things like that, [mortgage and getting married] so it's probably more like, cost wise, because its [Sharesave] not a priority to me at the moment, its not something that I want to put my money into until its kind of necessary. But like when I am older, if I had a mortgage and things like that, sort of out of the way, then it might be something that I would start thinking that I could start putting my money into this for the future.  
(Employee,F,FT,NP)

However, the Sharesave scheme did not fit naturally into the 'share' wealth category. Employees saw the Sharesave scheme as a 'savings account'. So employees might take out a Sharesave scheme as an alternative mechanism to saving to a bank or building society. This approach would use the money saved as a down payment on, for example, a wedding or house. The shares aspect of the scheme would only be seen as a way of maximising the cash value of the money saved. Hence participating in the scheme did not change or accelerate employees' views about shares. It did

not lead to, for example, the purchase of shares in other companies and the building of a shares portfolio.

I therefore conclude that for the group of employees from which interviewees were selected, there are not strong employee attitudes to extend saving to the `share asset` category following involvement in the Sharesave scheme. I also consider that awareness of shares following Government privatisations and the demutualisations of the late 1980s and 1990s has not continued into the 21<sup>st</sup> century with this group of employees. (Johnson and Tanner, 1999:11) Older employees who would have experienced these periods did not influence younger employees to take up shares since there was little or no discussion about Sharesave schemes in the staff room.

My findings are contrary to those of Baddon et al (1989:268) when they said `since the scheme in their company was introduced, more employees had been acquiring shares in other companies.... thus there could be some kind of spill-over effect from having a company scheme of share ownership, and particularly from involvement in such a scheme, to engaging in share ownership on a broader front`. I found no such wider `engagement`.

This research suggests that Sharesave schemes have not increased employees' ownership of shares. This view is supported by the latest information on investment decisions being taken by parents utilising money provided by the Government's Child Trust Fund (CTF) provision. The Government is providing up to £500 for each child born after September 1<sup>st</sup> 2002 to provide each child with a lump sum at the age of 18. This money is

invested with a `provider` (typically a bank or building society) in either cash or shares.

Nationwide, Britain's biggest building society, is receiving about 1000 applications a day to set up CTFs but two thirds of them are opting for cash [rather than shares] to be held on deposit.

According to Barclays Capital, a subsidiary of the high street bank, [cash] deposits only beat shares over one period of 18 years during the last 100 years. (Cowie, 2005) (See also Dewey, 2005.)

Parents are favouring cash over shares with the investment decision on their CTFs, which over an 18-year period is a wealth reducing decision. This will diminish the Government's intent that the money `can be used to help towards university costs, vocational training or towards a deposit on a house`. (NatWest, 2005) These actions mirror my findings for Sharesave schemes and I conclude that for the case study companies investigated, the intent of `broadening the distribution of wealth through the extension of share ownership` is not being achieved contrary to one of the original design features of employee share schemes explained by Nicholas Ridley (then Financial Secretary):

....the more widely share ownership can be spread throughout the community, the more all citizens own capital, the better it will be for general political reasons. (Hansard, 11<sup>th</sup> December 1981, p.393 column 1159, cited by Richardson and Nejad, 1986)

In summary, there are two ways that adults can create wealth. Firstly, a higher percentage of the adult population might purchase their own house. Buying your house is a well-understood process, available to all (subject to financing) and many of the employees that I interviewed were saving, as a priority, in order to purchase their own home.

Secondly, wealth can be accrued through shares. Although the group that I researched was young adults, nonetheless this group faces decisions early in their career that requires a good understanding of the benefits, risks, and mechanisms associated with shares. When or if to take up a pension; when or if to take out a life assurance policy; whether to take cash or shares for your Child Trust Fund are all decisions that are share based and require a good understanding of shares to make a correct decision. For the employees studied, shares were not understood excluding them from shares wealth.

### **11.8 FINDINGS IN RELATION TO THE LITERATURE.**

The early literature on financial participation tended to look at schemes in which employees gained financial rewards as a collective whole. In later years, particularly with profit sharing and SAYE, schemes were differentiated in the same article or it would cover only one scheme. This thesis reinforces the importance of not putting different schemes together in one piece of research. Although only J.Sainsbury had several financial participation schemes running in the company at the same time, it was particularly noticeable that different attitudes were displayed by employees between the schemes. For example, the comments on the profit sharing scheme (now withdrawn) were largely negative on the company for withdrawing it.

The free shares scheme was also seen negatively since it was considered a poor substitute for the withdrawn profit sharing scheme and it elicited the accusation of `why should employees of five years service wait another five years before receiving the benefits`. The Sharesave scheme was seen as giving employees a choice. Employees, who had participated, had chosen to do so and therefore were more positive about the scheme.

This suggests that offering a benefit for free is not always seen as advantageous compared to a benefit that the individual chooses to contribute to.

The financial literature also tends to look at employees as a collective group when researching financial participation schemes. References are sometimes made between management and non-management, salaried and non-salaried and male and female employees. My research suggests that not recognising the different characteristics and attitudes between various groups of employees is a serious omission in the literature. This research particularly draws out the impact of part time employees on participation but also goes further to identify that even the part time employees 'group' can be subdivided into several sub-groups. (See section 11.3.4)

Recognising that financial participation schemes and employees are not homogeneous (as demonstrated in this research) challenges questions about 'employees' assessments of the effects of share ownership schemes on their attitude to the company and work' (Poole and Jenkins, 1990:89). My research suggests that these questions would be answered differently depending on whether the employee was part time or full time or whether the employee was being asked about a profit sharing scheme or a Sharesave scheme. By 'lumping' all employees together and asking about financial participation schemes as a whole, the differences between types of employees and types of schemes are lost.

## **11.9 FINDINGS FROM A CONTEXTUAL POINT OF VIEW.**

Today, the Sharesave scheme is a sophisticated financial instrument, a picture that is not portrayed by the literature. Although the contextual aspects

do not have a direct bearing on causing the employee to participate or not in the scheme, nonetheless these aspects provide a picture of the setting in which the schemes are operated and the many considerations that the employee and employer have to ponder.

There are several ways that employees may operate the Sharesave scheme for maximum financial advantage particularly in a volatile share market.

Firstly, employees can reach a beneficial state whereby they are receiving a completed Sharesave scheme every year. In the first year that an employee is offered an opportunity to join the scheme, let us assume s/he opens a 3 year scheme at £25 per month. S/he continues opening a new scheme every year for three years at £25 per month. On starting the third scheme, s/he is saving £75 per month over three schemes. In year 4 the first scheme ends and s/he is paid the savings back in cash or shares. S/he can `re-use` the £25 per month that was paid to the first year scheme to fund the scheme starting in year 4. Hence from year 4 onwards this employee saving £75 (3 x £25) per month would receive a cash or shares payment (the payment, if taken in cash, would be around £930 annually) from a completed £25 scheme every year forever. (Or as long as the company operated Sharesave schemes.) Not all employees appreciated this aspect of operating the scheme but those that did, used it to fund, for example, their annual holiday. You can operate this mechanism for a 5 year scheme in exactly the same way other than there would be no final payment for the first five years and then the employee would receive a regular payment annually of around

£1550. A five year scheme would cost the employee £125 per month if s/he was saving £25 per month to five schemes.

Secondly, in a volatile stock market, the employee can cancel a scheme in order to `follow` the lowest option price that is being offered. I have called this `hunting the share price`. If I take Matalan as an example, the option prices offered on their Sharesave schemes for the years 2002 to 2004 were £3.78, £1.58 and £1.78 per share. Hence an employee who took out a 2002 scheme at £3.78 could cancel it when s/he learns that the 2003 scheme was being offered at £1.58. If we continue with the example that s/he is saving £25 per month, then on the 2002 scheme s/he is `earning` 6.6 shares per month. On cancellation of the 2002 scheme and taking up the 2003 scheme, s/he is now `earning` 15.8 shares per month for the same monthly £25 payment. Cancellation has two other advantages. S/he can use the money saved in the cancelled scheme to fund the payment to the new lower option price scheme. Additionally, not only is s/he `earning more shares` per month from the lower priced option scheme but s/he is also more likely to see the shares go up in value and obtain a capital gain on the shares in three years time. If the shares do not go up, then s/he can cancel the 2003 scheme and invest in the next `even lower priced scheme`. As can be seen, in 2004 the option price rose to £1.78 so if s/he had `hunted the share price` in 2003, s/he would now be successfully invested in this lowest option scheme in the last three years. The only disadvantage of this action is that the employee loses one year when s/he cancels an earlier scheme.

These `subtle` mechanisms in using Sharesave schemes were not widely understood by employees and were not described in any of the



information that was issued. Employees learnt about them, typically, from colleagues who had been taking up the scheme for many years. I also interviewed some managers who were unaware of the ` hunting the share price ` mechanism.

To give an idea of the financial importance of using this mechanism, let us continue with the Matalan employee who cancelled the 2002 scheme and opted into the 2003 instead. If we `guess` that Matalan's share price will be £3 in 2005 – 2006, then employees who did not cancel their 2002 scheme will have an option price scheme, at the end of their 3 years, of £3.78 which is above the market price and therefore they will do best to take the cash value which would be £930. For the employee who converted to the £1.58 2003 scheme, s/he will have, at the end of three years, a scheme valued at £930 or 589 shares. At £3 per share, the employee would do best to take the shares and if immediately cashed, they would realise £1767. Hence cancellation into the lower price scheme has nearly doubled the employee's Sharesave scheme value.

For the **employers**, the main issue is forecasting the number of shares that the Sharesave scheme is going to require in three or five years time. This is the reason that administration of the Sharesave scheme is normally located in the Company Secretary's department. To avoid breaching the ABI's guidelines on the number of shares owned by employees (these guidelines include executive shares as well as all-employee share schemes), some employers have to `cap` the number of shares that the Sharesave schemes will offer employees. The necessity to cap or not is mainly driven by the number of company shares in circulation.

There are various mechanisms open to employers as to how they operate a capping mechanism. The mechanism normally used is to put a limit on the maximum amount that can be saved monthly. For example, J.Sainsbury set a £200 limit and Matalan in 1999 set a £150 limit. A second mechanism is to allow applications to the IR maximum and then scale back pro rata if the total is above the number of shares available. Some employees do not favour this latter mechanism because it means that employees saving small amounts are scaled back in equal proportion to those saving at the limit. BAE Systems recognised this point and when they scaled back, they did not alter applications, say at £50 or below, but reduced applications above this point by commensurately higher amounts.

Another aspect of Sharesave schemes that the employer must take into account is lapses i.e. the number of options that are going to be cancelled before the scheme completes in three or five years time. Leaving the company, redundancies and retirement all mean that some employees start a scheme but do not complete it. Therefore shares that might be needed at the completion of the scheme are no longer going to be required. WHSmith reported lapse levels of 55% to 80% and J.Sainsbury reported 20% on some schemes due to cancellations.

An even bigger effect that impacts on the number of shares required is the **market share price** versus the Sharesave scheme's option price at maturity. For example, unless there is a dramatic turnaround in the business fortunes of Matalan, the 2002 option price of £3.78 is unlikely to be reached for the 3 year applications. Employees saving to these schemes will therefore all take cash when they mature and so no shares will be required,

in effect the cancellation level is 100%. Hence all the analysis that puts on a capping limit or varies the discount to discourage the take up of a scheme at the beginning, may look entirely different at the end of the scheme

### **11.10 FINDINGS ON RELIABILITY AND VALIDITY.**

This section considers the credibility of the findings and the reliability and validity of the research design.

#### **11.10.1 Reliability.**

Defining `reliability` as whether the results are repeatable has two different perspectives depending on whether one is considering the quantitative or qualitative results. In the case of the quantitative results, since the data presented was the level of participation for a specific employee characteristic on a specific date, the results are clearly repeatable since re-visiting this data would be expected to produce the same data. However, conclusions have been drawn on the links of age, gender etc to participation based on only one year's set of data. Nothing in this thesis has been presented to suggest that the significant association of, for example, age with participation occurred in earlier years. Some confidence can be taken from the fact that all three case study companies exhibited similar conclusions (except for the weak association of gender with participation in J.Sainsbury) on the quantitative results. Nonetheless, only one year's results were presented.

In the case of the qualitative results, this research has sacrificed the repeatability aspects `of a standardised set of measurements` (Mason, 2002:187 and Saunders et al., 2000:251) to have the flexibility to explore the research topic in depth. The nature of this research means that the views of

employees are not constant on all aspects of the topic. So capturing a picture of employees' views on one particular day is unlikely to be repeatable, for example one week later, since external stimuli may have affected these views. For example, if Tesco had made a bid for Matalan (as had been rumoured in the newspapers), the qualitative views of some Matalan employees on their Sharesave scheme might have altered as a result of this announcement.

#### **11.10.2 Validity.**

Two aspects of validity were considered, firstly generalisability and secondly triangulation. This thesis did not pursue the suggestion that the research findings were 'generalisable' to other companies or even other retail companies. The emphasis has been on presenting the range of reasons why employees participate or not in their Sharesave scheme rather than the generalisability of the results to other companies.

Triangulation enhanced this research. The use of both quantitative and qualitative methods did enable differences to be explained which would have been more difficult if only one method had been used. The statistical tests on gender versus participation produced differing results between the three case study companies. The qualitative data in J.Sainsbury showed no difference between males and females thus creating a more confident conclusion that gender and participation were not linked.

The statistical tests on option price versus participation again produced differing results between the three case study companies. The qualitative data showed that a few employees, particularly in J.Sainsbury, were influenced not to participate by poor company performance especially by

results that were continually being reported negatively in the newspapers. This suggested a possible contextual explanation of the reason why this association occurred in J.Sainsbury and not in the other two companies.

The qualitative data from managers when compared to that of employees on the same topics did not provide the contrast that had been expected. The views of managers in most cases corroborated what employees were saying but there was a wider spread of views from managers, ranging from the overly optimistic to the overly pessimistic. This, I suggest, was because the managers moved their answers from `explaining the views of what their employees thought` to actually expressing `their own views`.

#### **11.10.3 Further reliability and validity considerations.**

Two further aspects of the research, namely the semi-structured interview and distancing the researcher from the interpretation of the qualitative data reduced subject and observer bias (Saunders et al., 2002:101) and hence improved the reliability of the findings.

The use of the semi-structured interview to enable employees to explain what actions they took on the Sharesave scheme (and why) gave credibility to this research. A number of reasons support this view. A face-to-face interview gave me an opportunity to see non-verbal behaviour, hesitancy and embarrassment that might indicate that the answers were not the truth. The interview gave me the opportunity to ask follow-up questions to probe this hesitancy and further test the validity of the earlier replies. There was no evidence in the interviews to suggest that employees were `deliberately lying`. The inaccuracy of some of the replies was more

associated with an uncertainty on what reply to give when the question was one that the interviewee probably had not considered before. 'I don't know' or 'I haven't even thought about that' can be an uncomfortable response for someone to have to make, so 'a guessed reply' may be given. For example, questions about the employee's loyalty to the company (and whether it influenced the employee to participate in the Sharesave scheme) were probably ones that most employees had not considered before. To reply 'no, it did not influence participation' or 'I never thought about that' could be construed as disloyal to the company. So there was some 'visual behaviour' that a few employees gave a positive answer that loyalty had influenced them when in reality they had not considered the point.

A few managers also gave signs that indicated that their answers were not always accurate. This is interesting because the largest part of the interview with store managers was about 'what they thought **their employees thought** about the company in general and the Sharesave scheme in particular'. One manager gave replies that suggested that as she was being tape-recorded, she wished to give the impression that all her employees were 'happy' with the company and the scheme. This positiveness appeared false when she knew of nothing that her employees might have concerns about. One manager exhibited nearly the opposite behaviour seeming to see the interview as an opportunity to be critical of the company and using the 'views of his employees' as the means of doing this. The strength of feeling expressed suggested that the replies were more of the manager's views than of his view of his employees' opinions.

Another advantage of the face-to-face interview was that employees' replies could be 'checked'. So, for example, when asking participants about being a shareholder and whether they had seen/read the company's annual financial report, a 'yes' reply could be followed up with a question about what they thought of the report. Their reply to this indicated whether they had indeed seen the report. All these positive points of the semi-structured interview method must be contrasted with the survey/questionnaire method where there is little way of knowing if the employee has replied accurately.

The downside of the interview method is the small numbers of employees from whom data is collected. This restricts the generalisations that can be drawn but still can provide a rich picture of the range of thoughts that employees have about the subject without suggesting that all employees have similar thoughts.

Overall, interviewing employees was a robust method that produced data, which was truth 'as the interviewee saw it at the time'. The face-to-face nature of the interview method also enabled 'discomfort' with any questions to be observed and gave me an appreciation of some of the areas where employees or managers might subtly modify their answers.

I suggest that distancing the researcher from the analysis and interpretation of the data also improved the credibility of the findings. One strand of this 'distancing' stems from a comparison of the interview data to the model, the model itself being derived from the literature review and the pilot study interviews. The questions asked at the interviews are driven by the need to address each of the elements of the model rather than what the

researcher might consider important. The data analysis was of 'interviewees' responses to each element of the model'. The logic of this approach however had to be applied with care since it was possible that interviewees might provide, as they did, answers and reasons that did not fit with those that had been mentioned in the literature or pilot study and therefore were not shown in the model. This care was exercised by asking, initially, broad questions about each element rather than specific questions and allowing employees to respond in their own words as they saw it. Care was taken to ensure all the interviewee's views were captured. This is an advantage of the semi structured interview in that the loose structure ensures that all topics which are considered important to the study are covered, but respondents are given the freedom to talk about the topic and give their views in their own time. Such interviews are responsive to new points initiated by respondents.

A second strand of 'distancing' the researcher from the analysis was achieved by 'quantifying the qualitative responses' and reducing the researcher's influence on the interpretation. As explained earlier, this quantification of the responses aided comparison and interpretation between male and female, full time and part time employees, participants and non-participants within a case study company as well as aiding comparisons and interpretations between case study companies. Quantification of the responses strengthened the interpretation of the research since it replaced the researcher's opinion on the strength of interviewees' responses.

There were some dangers with this approach. Firstly, the quantification was of the number of employees who were asked and answered the question. So it was potentially inaccurate for the employees who did not



respond. For example, 'most employees consult their Mum and Dad about the Sharesave scheme' leaves unsaid what action the remaining employees took.

Additionally, qualitative responses by their very nature do not always fit under clear narrow 'headings'. So there is a danger that the researcher may try to force fit 'similar replies' under a specific heading and lose some of the richness of the responses. So the interpretation could be argued to be neither covering all respondents nor comprehensive.

In general, however, I consider the advantages of quantifying the qualitative responses and removing the researcher from interpreting the strength of the responses as outweighing any disadvantages.

In summary, this research has embraced a number of ways of confirming the credibility of the findings. I have argued that the semi-structured interview was a particularly sound way of obtaining the 'truth' from employees (as they saw it) since both the employees' body language and the opportunity to test answers with supplementary questions allowed checks to be made on unconvincing replies.

The distancing of the researcher from the interpretation also improved the findings since the data, linked to the model, drove the conclusions rather than the interpretation being wholly dependent on the researcher.

Finally, the triangulation of the quantitative and qualitative methods enabled interpretations of differences to be made that would have been more difficult if only one approach had been available.

## 11.11 WHAT THESE FINDINGS SUGGEST FOR POLICY.

The findings suggest that Government policy should do more to encourage the population to save. This research suggests that, attitudinally, people wish to save and require schemes that encourage this need. Encouraging people to save more to interest-bearing accounts would fit with the `first type of saving` method that is typically selected. Allowing the interest on the first £5000 of capital in an interest-bearing account to be tax-free would be an example of providing this encouragement.

Secondly the information flow on financial schemes that are available should be high profile (as occurred with the British Gas and Telecom privatisations) and **continuous**. This research suggests that information should be targeted, in particular, on potential new entrants and those people not likely to see or understand the financial opportunities of such schemes. In the same way that the case study companies' information flow disadvantaged part time employees by leaving them out, so Government savings schemes are likely to leave out members of the population who do not typically read or see information about such schemes. Information on financial schemes should also be continuously targeted at the key groups in the population and not just when new schemes are issued.

Another aspect of company information is that the annual report, which is the main vehicle that explains the performance of the company, is only issued to shareholders and is only understandable by those with financial skills. Employees lose out on this communication when they are not shareholders and mostly do not understand the annual report when they are shareholders.

WHSmith went part way to answering this point by issuing the annual report to all participants in the Sharesave scheme irrespective of whether they were a shareholder or not. J.Sainsbury issued an 'Annual Review and Summary Financial Statement', which was issued to all employees and addressed the key financial aspects of the company's performance but communicated this in a simpler way for the less financially aware employees. Employees wanting the full annual report could always request this as well.

A 'summary' annual report should be considered mandatory for all employees in all companies with the added responsibility on management to provide a face-to-face question and answer session on the company results twice per year. Employees are key stakeholders in their company whether they are shareholders or not and therefore they should be presented with regular information on the performance of their company.

Peel and Pendlebury (1998:45) emphasised that it was financially aware employees that took up Sharesave schemes not that membership of a Sharesave scheme increased employees' financial awareness. It should be a management responsibility to ensure all their employees understood the key financial instruments of running a business and the performance of these instruments for their own company.

Employees in Sharesave schemes, where the company's share price is in decline, never enter the world of owning shares since taking cash is always the best economic course of action when the schemes mature. Sharesave schemes should be able to offer the alternative of investing the savings in pooled funds (Unit Trusts/Investment Trusts) as well as in cash or the company's shares. This breaks the theoretical link that suggests that

owning shares in the company for whom you work encourages better work performance and attitudes but my research did not find that this link existed. Pooled funds, as an alternative, have a number of advantages. They spread the risk over several shareholdings; they increase the holdings in 'partially safe assets' that Banks and Smith (2000:10) suggested were an underused group of assets; they answer Unions' concerns that Sharesave schemes 'put all employees' eggs in the company basket'; and a number of pooled fund companies like Foreign & Colonial Management Ltd. and Alliance Trust Savings Group have wide experience of offering access to stocks and shares at a low cost to people who wish to invest small sums of money.

The final chapter discusses the conclusions and implications that can be drawn from these findings.

# Chapter 12.

## Conclusions.

### **12.1 INTRODUCTION.**

This chapter concludes the thesis by discussing the contribution and implications that the findings have for our knowledge on financial participation, presents the limitations of the research and makes suggestions for future research.

### **12.2 THE IMPACT OF THE FINDINGS ON OUR KNOWLEDGE.**

Financial participation schemes are typically studied via a quantitative approach. In the UK, the emphasis is on `do financial participation schemes improve company performance and if so, which employee attitudes have an impact on this improvement`. In the USA, the emphasis is on `which employee and plan characteristics influence participation in financial participation schemes` with the underlying assumption that the answer will enable participation levels to be raised.

The approach in this thesis is to argue that a proper understanding of employees' actions in relation to participating or not in Sharesave schemes can only be achieved by asking them face-to-face. It is only by understanding the meaning that such schemes have for the individual in terms of the actions that the employee takes and why, that one can truly understand the impact of financial participation schemes.

The conclusions from the findings were that employees took rational decisions to participate or not in financial participation schemes based on

what they saw as their best financial interests at the time. There was little evidence that employees saw their best financial interests linked to their employer either via financial participation generating a greater commitment to the company or out of a desire to obtain an ownership stake in the company.

Also by focusing on employee actions with accompanying reasons, causal directions were more easily identified. This was exemplified by the conclusion that the Sharesave schemes in this thesis did not have any retention effect on employees because they had already decided to stay with the company, a point that quantitative data was unable to distinguish.

The thesis also concluded that although certain employee characteristics were significantly associated with participation, other factors had to be considered alongside these characteristics to understand employees' decisions to participate or not. For example, although pay (higher) and participation were statistically associated, employees did not give 'lack of money' as their main reason for not participating. Many employees were already saving to other schemes (external to the company). In the view of employees, saving to the company's financial participation scheme was influenced by factors such as whether they were saving for other purposes, for example a mortgage or a pension. Employees were always weighing the priorities of their financial resources.

The findings in this thesis revealed that the changing nature of employment influenced employee participation. For example, there has been a significant increase in part time working since Sharesave schemes were introduced in 1980. This is likely to have led to a reduction in participation in

these schemes. (Since full time employees were significantly associated with participation) However this thesis identified that part time working had a complex impact. For example, part time employees who were students with a short term planning horizon might not participate in Sharesave schemes but part time employees who worked regularly Monday to Friday might consider themselves 'permanent' and would have the same attitudes to participating in schemes as full time employees.

This thesis supported the conclusions of the 401(k) plan financial participation literature that the 'plan characteristics' had an influence on participation. For example, the rules on eligibility affected the level of participation because new employees were less likely to participate in these schemes compared to employees who had been with the company for a number of years. Hence the company's desire to offer the Sharesave scheme as a benefit to all employees actually reduced participation levels as expressed as a percentage. Another example is that employees are attracted preferentially to the shorter duration '3 year' Sharesave scheme. Whether the employer offers a 3 year scheme or not is therefore likely to affect the overall participation levels in the company.

Finally, the quantitative approach typically used in the financial participation literature assumes that the employee groups being researched are homogeneous. This thesis challenges this point. Different sub-groups were found within the part time employee group, and these had different attitudes to participating or not in Sharesave schemes.

Overall, this research concluded that employee characteristics and attitudes, plan characteristics and the employment context in which

employees were considering these schemes influenced participation.

Employer factors did not play a significant part. Employees were deciding to participate or not based on what they saw as their best financial interests.

### **12.3 THE IMPLICATIONS FOR RESEARCH IN THIS AREA.**

The primary implication from this thesis is the importance of talking to employees as individuals in addition to using statistical methods. Both approaches are important in financial participation research but historically the `voice` of the employee has not been adequately heard. In addition, there is merit to researching the actions (with reasons) that employees take on financial participation schemes rather than just the attitudes that they display since the former can provide clarity on the causal direction between the employee and participation. This approach enables biases, which typically occur in financial participation quantitative research to be minimised. The implications of this for financial participation research are that non-participants' views particularly, should be considered equally with participants' views.

A second implication is that financial participation research needs to consider the characteristics of the schemes being studied. This thesis has shown that different Sharesave scheme characteristics have an impact on participation levels. The assumption should not be made that Sharesave schemes are all the same and can be researched collectively without considering any differences between the characteristics of each scheme.

Similarly, employees should not be considered a homogeneous group. The findings from this research have shown that even sub-groups of employees like part time employees are not homogeneous. The thesis also



suggests that other groupings like shift workers might have views that differ from those of the group from which they are drawn.

Finally, the implication can be drawn from this research that the changing nature of employment in which the business world is operating is influencing employees' views about financial participation. This suggests that financial participation research should consider the on-going business employment situation and not just investigate when there are changes in financial participation schemes.

Overall, the use of qualitative methods in this thesis, particularly talking to employees, revealed new perspectives not typically found in the financial participation literature. The implications of this are that qualitative methods are as equally important as quantitative methods when researching employees' views on financial participation schemes.

## **12.4 THE LIMITATIONS OF THIS RESEARCH.**

### **12.4.1 Researcher bias.**

The data collection and initial analysis were constructed in this thesis to avoid the researcher influencing the outcomes. However in the write up of the case study companies, the selection of the topics that were emphasised and the quotations used did have a strong researcher influence. Against the test of 'would another researcher produce an identical write up to the one shown in this thesis on the same data', the answer would be 'probably' but not 'certainly'.

A solution to reduce unwarranted researcher bias in the write up of the case study interviews is the use of two (or more) interviewers, namely a form

of `interviewer triangulation`. With the structure used in this thesis, two researchers could each interview half the employees in each `group` i.e. male/part time/participants and independently analyse the combined interviews and `interpret` the results. The researchers would then come together and compare their analyses and results, which would show the points of emphasis selected from the interviews and the quotations that each had used. The discussion between the researchers on why each point of emphasis and quotation had been selected would lead to a more rigorous reasoning for these selections.

#### **12.4.2 Interview creep.**

Over the interviews in the three case study companies, there was `creep` in the range of topics discussed and the time spent on each topic. This was due to a number of factors. As the interviews progressed, I learnt which topics the interviewees had information on and wanted to discuss. Although I was interested in topics that interviewees had little to say on (a simple `no/ I don't know` was data in itself), it was inevitable that to keep the flow of the interview and to maintain the interviewees' interest, topics on which they wanted to talk increased as a percentage of the time of the interview.

In addition, I reviewed the output of the interviews at the end of each case study against the model and modified the interview questions in the following case studies for topics that were inadequately covered. For example, team work/ work participation was a topic that I judged to be insufficiently covered in the WHSmith interviews and therefore raised the importance of this in the following two case studies.

If I were repeating an interview programme of this type, I would review the output of the interviews at a greater frequency than just at the end of each case study company. The researcher is so focused on the mechanics of 'doing the interviews', i.e. locating the interviewees, meeting the appointments, having a private room in which to do the interview and completing the interview without overstaying the welcome, that the content of the interview against the interview checklist is assumed to be robust.

However, interviewees might be providing information, which required a modification to the questions or, at least, an alteration in the time emphasis of the interview. In a case study of around forty interviews, it would be wise to review the information coming from the interviews against the questions and the model on at least three or four occasions.

#### **12.4.3 Linkages between data collection and data analysis.**

The data collection in all three case study companies was completed before the analysis and write up were started on the first case study. There is however such valuable learning from the analysis of the interviews in both the detail of how it is accomplished and the 'nature and quality' of the output that the research would have been improved by completing the analysis of the WHSmith interviews **before** starting the interviews of the other two case studies. This would have resulted in improved interviewing and 'more sharply focused' outputs and quotations in the other two case studies. There is a danger that analysis after the first case study company could result in the researcher pursuing interviews, which 'aim to find out what s/he has already decided s/he wants to know'. On balance though, I would have been sharper in the interviews of the second and third case studies, particularly 'clarifying'

the meaning of what interviewees were telling me, had I completed the analysis and write-up stages of the first case study.

#### **12.4.4 The age of the interviewees.**

One of the key constructions in this thesis was interviewing employees who were 30 years of age or under and therefore talking to people who came from a predominantly non-participant population. This had a 'downside' namely that a high percentage of students were interviewed (26 students were interviewed across the three case study companies representing 55% of the part time interviewees) and therefore their perspective dominated the views of part time employees. I only became aware that a significant number of students were being interviewed in the part time employee category around the time that I was finishing the second case study company. A possible improvement to the research might have been to limit the number of students per case study company to around four. (25% of all the part time employees.) I am hesitant in recommending this since in no other way did I influence the random selection of the employees that I interviewed. May be 55% students represented the population of the part time employees under 30? On balance, I prefer the 'pure approach', which randomly selected the employees that I interviewed and as a result the issues of part time employees and the non-homogeneity of the part time employee group emerged. These are valuable insights that might not have surfaced if I had 'influenced' the interviewee selection process at the beginning.

A second effect of interviewing employees who were 30 years of age or under was, obviously, the views of the 'older' population of employees were not heard. (Although all but one of the store managers that I interviewed

were over 30 so some data was collected on the views of older employees albeit managers in the role of employee.) A reflective consideration is whether I should have included in the interview programme a group of employees over 30 years of age, split equally between participants and non-participants, to ascertain if their views coincided or differed from their colleagues below 30. The quantitative data does give information on the characteristics of employees over 30 that participate/do not participate but the absence of interviews of this age group means that their in-depth views are missing. On balance I believe to do this properly would have involved an interview programme of almost the same number of employees over 30 as I interviewed under 30 years of age and therefore I would have doubled the size of the research. I have suggested that the views of the older population should be considered as a future research project in section 12.3.

Finally, although this section is on the `age of the interviewees`, I think the age of the **interviewer** had a positive influence on the interviews. I judge that my age and position as `a father-like` figure was an advantage in creating the right atmosphere for employees to talk openly to me about their financial affairs.

#### **12.4.5 Sub-management as interviewees.**

I set out to interview `general members of staff` and to compare their views to those of management. The definition of management was more imprecise than I had appreciated at the beginning of the interview process. The key management role was `store manager` and it was s/he that I interviewed in each store to get `management's perspective` on the Sharesave scheme. However, there were a number of positions like

`assistant department manager`, `admin manager`, `supervisor` and `trainee manager` from which employees were drawn for the `general staff interviews`. Because some of these employees were as young as 21 years of age, I was slow to appreciate that I was blurring the definition of `general members of staff and management`. Of the ninety- five employees that I interviewed, six had `management style titles` (WHSmith – 2; J.Sainsbury – 1 and Matalan - 3) and all of them were participants in the Sharesave scheme. An improvement in this research would have been to agree with the case study companies in advance which titles they considered `management positions` and avoided interviewing employees from these positions.

## **12.5 SUGGESTIONS FOR FUTURE RESEARCH.**

In view of the model and the findings in this research, it would be important to look at the reasons for participation and non-participation to test if the influencing factors found in this thesis dominate in other sectors. So, case study companies should be investigated with different levels of pay, full time/part time ratios and turnover to assess if these factors, for example, affect the level of participation in other sectors.

Future research should provide more breadth to the groups of employees who are interviewed. A broad range of employee ages should be covered to assess if employees over 30 have similar views to those under 30. Similarly, the non-homogeneity of groups of employees should be considered with, for example, differences between types of part time employees being investigated.

Finally, senior managers viewed Sharesave scheme more positively than SIPs. (WHSmith and Matalan.)

We've looked at the other schemes. This [Sharesave scheme] is however well accepted by employees and so our results are reasonably well understood. It is also, and I think this is the most important thing, risk free. You don't have to exercise until you know the share price whereas these other schemes [SIPs] are not risk free.  
(Senior manager.)

Future research should investigate employees' and managers' views on the relative merits of the Sharesave scheme compared to SIP schemes especially in companies where both schemes are run side by side.

## **12.6 WHAT I HAVE LEARNT?**

I learnt that young employees have a great determination to succeed. I met some remarkable people. There was the young man who was determined to be a fireman. He was 19 and was working part time while his application was processed. He estimated that the interview process to be a fireman was nine months long and started with sending in a 'pre-application form' so the Fire Service could decide if the candidate was good enough to receive an application form!

Or the young woman whom I interviewed on a Sunday when she was the senior person present in the store. My interview with her was interrupted seven times, four of them by an aggressive 'magazine publisher' who was determined to visit the store's basement to see if his magazines were there as they were not on the shelf. This he was not allowed to do and she forbade him four times, each time as assertively as he was to her. Her authority won and he agreed to return on Monday to discuss the matter with the store manager. She was 21 years of age, only worked part time on a Sunday and did not have a managerial position.

I learnt that companies have a wealth of data on their employees, which they rarely seem to use to provide support and care to their employees. Typically, companies did not use their `employee data bases` to provide information to management about employees, for example which employees were using the company benefits and which were not. The store managers interviewed in the three case study companies did not have the information on who in their store participated in the Sharesave scheme and therefore they were unable to concentrate their encouragement on those that did not. In fact one store manager went as far as saying that whether an employee participated in the Sharesave scheme or not was of no importance to him since he was not targeted on Sharesave participation.

There's a big phrase that `sort of what gets measured gets done`, so if the take up of Sharesave was being measured by store, we might be doing something but as its not measured at that level, I don't get any data or statistics that tell me how many people I've got in the Sharesave scheme. That's probably something that goes along in the background as a corporate initiative rather than in the foreground as something that's there for the store. (Manager)

The employee databases are used only for specific purposes like paying the employee. Errors in the databases like inputting a starting date as a date of birth are rarely discovered unless the specific outputs are affected. The understanding of the numbers from these databases by the case study companies was weak. For example, there was not a full explanation as to why there were a high number of participants at Matalan in the £4,999 and under pay level.

I learnt that talking to people as a conversation (rather than as a formal interview) is both rewarding for the researcher and a beneficial sounding



board for the interviewee. Talking about financial affairs can potentially be an intrusion even a threat for the individual. All employees in this research were happy to talk about their financial matters and in some cases the conversations strayed into domestic subjects like how should the wages of husband and wife be split to cover the running of their home!

I learnt that there is a strong bond between people under 30 and their Mum and Dad. In all the matters covered by this research, employees consulted their parents first. They rarely acted differently to the advice that their parents gave.

12.7 SOME REFLECTIONS ON THE MODEL.

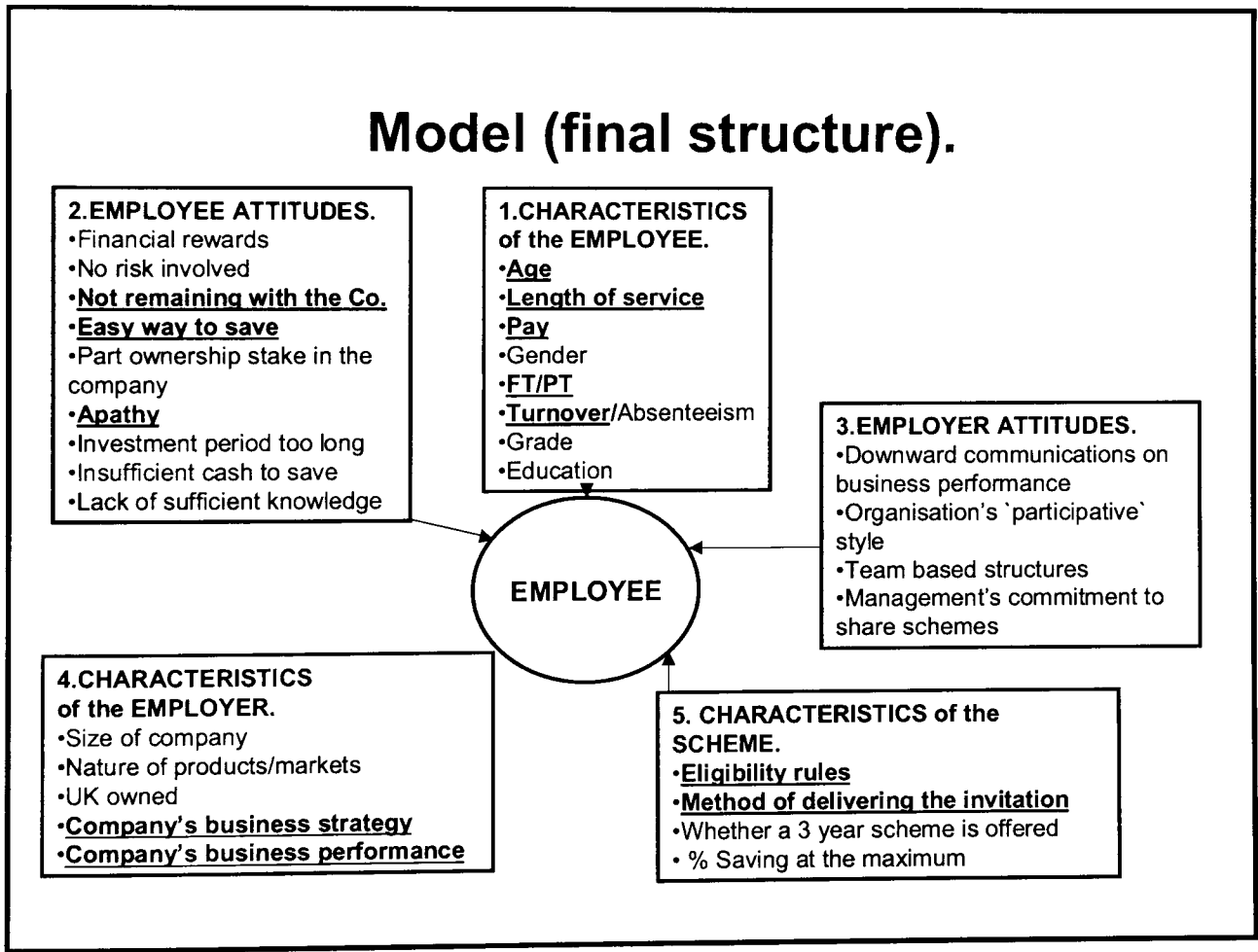


FIGURE 12.1

Model – final structure.

I have used the model as an instrument for presenting the factors that might influence participation/non-participation by employees in their

company's Sharesave scheme` and assessing, which factors did in three case study companies.

Figure 12.1 – the model (final structure) shows in bold and underlined the factors, which were found to influence participation/non-participation in this research.

The other factors shown in the model were raised by the research literature and the pilot study managers or conceptualised (element 5). They were not found in this research to influence participation/non-participation either because I did not research them (e.g. Grade) or they were found to have no influence (e.g. Gender). I have continued to show all the reasons that might influence participation/non-participation (emphasising those that did in this research) because I consider it unwise to delete a reason just on lack of evidence from these three case study companies.

I have on occasions used a qualifying word to suggest the strength of the influence of a factor. This is assessed on the number of employees who made comments on the factor. For example, I have described `company's business strategy` as a weak influence on participation because three employees in Matalan made the suggestion that they were influenced positively by the company's niche market and strategic aspirations. Intuitively, if every employee gives the same reason for an action (e.g. all participants said that their main reason for taking up the scheme was to `save money`) then it did sway me to suggest it was a `strong influence`. There is, however, no suggestion that the model can be used to predict the participation level of a company on the basis of which factors are present or the number of employees who have mentioned the factor.

Poole and Jenkins (1990:70) stated that

One of the most important findings of [their] investigation is that profit sharing and share ownership are a highly complex phenomenon.

I concur.

I believe that the strength of this thesis is that it has shed light on this complexity. `Talking to employees` as a part of the methodology of investigation was a key aspect that led to understanding this complexity.

This enabled the richness and depth of Sharesave schemes to be better appreciated, firstly at the level of the employees' understanding of the scheme itself, secondly at the level of employees' understanding of the wider financial world and thirdly as to why employees took the actions that they did.

# 13. Appendices.

## Interview sheets.

### 13.1 SENIOR MANAGERS' INTERVIEW SHEET.

- How would you describe the employee culture in the [company], what it is currently and whether this is the same as management would like it to be?
- What is the company's underlying attitude to the involvement of employees in the business aspirations of the company and to what extent is this level of involvement being met?
- How does the company communicate its HR/financial aspirations and expectations of/to its employees?
- To what extent do you believe that employees should know the company's financial performance?
- How does the company's overall HR plans and policies support the company's business aspirations?
- How do employee share schemes in general and sharesave in particular fit with the company's HR approach?
- What would you say was the objective of the sharesave scheme?
- What do you see as the benefits and negatives of the sharesave scheme?
- What are your views about the current level of participation by employees in the sharesave scheme?
- Do you have any views about the Government's encouragement (in 1999) to introduce SIP share schemes? Is your company likely to introduce any of the options offered by the SIP schemes?
- Do you personally participate in the sharesave scheme? If so why?
- Do you exercise your shareholder rights?

### **13.2 MANAGERS' INTERVIEW SHEET.**

- **What are employees' views about the range of benefits that the company offers generally and sharesave particularly? (M2,3,4)**
  - **What do employees say about benefits?**
  - **What do employees say about sharesave?**
  - **Do employees compare benefits to other companies?**
  - **Is the company considered a good employer?**
  - **How would you characterise the philosophy/culture of the company's management of its employees?**
  - **Would you say that employees are involved in the running of the business, if so where and how?**
- **How is the sharesave invitation received by employees?(M3)**
  - **Mechanism of transfer?**
  - **Do you alert/advertise/say anything to announce the scheme?**
  - **How clear is the letter/brochure?**
  - **How well do you think employees understand the scheme?**
- **Do employees express a view to you as to why they do/do not take up the sharesave scheme? (M2)**
- **Do employees receive much business information as to how the company is performing as a whole/ (M2,3)**
  - **If so what is said and with what reaction?**
  - **How is it communicated?**
  - **Is the Intranet/Internet used to communicate business info.?**
  - **Is the share price communicated?**
- **Do employees express views about the company's shares/stock market?(M2,3) What views are expressed.**
  - **Do they receive information about the AGM?**
  - **Can they attend the AGM?**
  - **Do they typically follow the share price?**
  - **Do they receive the annual report?**
- **Do you personally save to the sharesave scheme? (M2) If so why?**
  - **Have you saved for many years?**
  - **Are you a shareholder?**
  - **Do you exercise your shareholder rights?**

### **13.3 EMPLOYEES' INTERVIEW SHEET. (PAGE 1 OF 2)**

(Request permission to tape record and to quote words from the interview anonymously. Confidentiality is emphasised.)

#### **INTERVIEW CATEGORY 1, CAREER HISTORY OF THE EMPLOYEE.**

- **HOW LONG HAVE YOU WORKED FOR THE [COMPANY]? Why join?**
  - Part time or full time?
  - Have you worked for any other companies? Why did you leave?
  - From college, school or student?

#### **INTERVIEW CATEGORY 2, VIEWS ABOUT THE COMPANY.**

- **HOW DO YOU FIND WORKING FOR THE [COMPANY]? (M3)**
  - Why did you select the [company] to work for?
  - Would you say it was a good company to work for?
  - How does it compare to other companies you have worked for?
  - What do you think of the way it manages its employees?
  - How do you find the range of benefits [the company] offers?
  - Were benefits mentioned at interview? Induction?
  - Does [the company] involve you in the running of the company?  
Store? Department? (Decisions, information, team work?)

#### **INTERVIEW CATEGORY 3, VIEWS ABOUT THE SHARESAVE SCHEME.**

- **YOU RECEIVED THIS INVITATION LETTER FOR THE SHARESAVE SCHEME LAST [MONTH]. (M2,3)**
  - Can you recall seeing this letter?
  - What were your thoughts when this letter arrived?
  - Is the letter/brochure explanation clear?
  - How does the invitation letter reach you?
  - Was this year the first year that you have been invited to participate?
  - Have you participated in previous years?
  - Do you recall if the sharesave was mentioned at Interview?
  - Did the scheme influence you to accept a job with the [company]?
  - Does it influence you to stay with the [company]?
- **REASONS FOR PARTICIPATING/NOT PARTICIPATING. (M2)**
  - What were your reasons for deciding to participate or not?
  - In [date] another invitation will be sent to you , will you participate?
  - If you wanted to participate, would you be able to find the money?
  - Would you say you were a spender or a saver?
  - Do you live at home? Rent? Own your home?

### **13.3 EMPLOYEES' INTERVIEW SHEET. (PAGE 2 OF 2)**

#### **INTERVIEW CATEGORY 3, VIEWS ABOUT THE SHARESAVE SCHEME (continued)**

- **DETAILS IF PARTICIPATING. (M2)**
  - Do you find a 3, 5, or 7 year scheme satisfactory? Why?
  - May I ask how much you are saving to the scheme monthly?
  - Will you take cash or shares at the end of the contract?
- **DO YOU MAKE UP YOUR MIND ON YOUR OWN OR DO OTHER PEOPLE INFLUENCE YOU TO PARTICIPATE OR NOT? (M2,3)**
  - Did you consult anybody as to whether to participate or not, if so who, why?
  - Have the advice/actions of colleagues influenced you to participate or not?
  - Does your supervisor say anything or influence you to participate or not?
  - What sort of advice do people mention?
- **DOES THE WAY YOU FEEL ABOUT THE COMPANY INFLUENCE YOU TO PARTICIPATE OR NOT IN THE SHARESAVE SCHEME? (M3,4)**
  - Loyalty?
  - Confidence in the company? Its products? Its future? As an investment?
  - Good employer?

#### **INTERVIEW CATEGORY 4, THE EMPLOYEE AS A SHAREHOLDER.**

- **DO YOU GET MUCH INFORMATION ABOUT [THE COMPANY'S] BUSINESS AND ITS PERFORMANCE? (M3,4)**
  - What information would you typically see/hear about the company?
  - Do you get details about the AGM?
  - Have you ever seen the [company's] annual report?
  - Do you follow the [company's] share price?
  - Is there access to the Intranet/Internet? Do you get information from them?
  - You are potentially a shareholder [for participants], does being an owner [or potentially an owner] of the company influence you in your daily work?
  - Are you aware of your shareholder rights?
  - Have you ever owned shares in any other company?
- **CLOSURE.**
  - Would you mind completing this form to confirm your personal details?
  - Anything you have said will remain confidential although I may use, as discussed, some of your words anonymously as quotes.
  - Many thanks.

### **13.4 PILOT STUDY INTERVIEW SHEET.**

- **BRIEF HISTORY OF YOUR SAYE SCHEME.**
  - When started?
  - Scheme's strategic objective?
  - Types of schemes used? (eg 3,5,7 years)
  - Are they Inland Revenue approved?
  - Any significant variation in the scheme since introduction?
- **BASIC DATA ON SCHEME OVER 5 YEARS.**
  - Length of service to be eligible?
  - % Participation by scheme type
  - Discount %
  - % Split between employees saving to 3,5 and 7 year scheme
  - Average £ saved per scheme per employee
- **WORKING OF THE SCHEME.**
  - Timetable from option price setting, launch, offers and first payment
  - How is option price set
  - Timing between offer of new contract v completion of maturing scheme
  - Who is the service provider?
  - Does the Board approve scheme annually?
  - Where organisationally does the admin of the scheme reside?
  - Where organisationally does the policy of the scheme reside?
  - How is the new scheme publicised and how often?
  - What info is available on what to do when options mature?
  - What are the rules for ill health and/or leaving the company?
  - Are there any lapses, if so for what reasons?
  - Can employees stop the contract part way through? Do they?
  - Do you survey employees' views about the scheme?
- **OPINIONS ABOUT THE SCHEME.**
  - Any differences in participation due to age, length of service, gender, pay, grade?
  - What typically are the economic reasons for participating or not?
  - What typically are the non-economic reasons for participating or not?
  - Do employees typically sell their shares or keep them at maturity?
  - Do all employees receive the annual report or only shareholders?
  - How many employee shareholders attend the AGM?
  - Do employees receive or request business information at their department meetings or are just operational details discussed?



**13.5 TOPICS THAT EMERGED FROM THE DATA ANALYSIS OF THE INTERVIEW CATEGORIES. (Jackson, 2004 Reflective Diary.)**

**(1) THE CAREER HISTORY OF THE EMPLOYEE.**

Career to date / why join the company?

**(2) EMPLOYEES' VIEWS ABOUT THE COMPANY**

Good company to work for?

Fairness of the way employees are managed?

Knowledge of the range of benefits? Mentioned at interview?

Is the company team-based/participative?

**(3) EMPLOYEES' VIEWS ABOUT THE SHARESAVE SCHEME.**

Employees' knowledge about the scheme

Employees' views about the scheme

Does it cause the employee to stay?

Who is consulted on the scheme?

Any staff room chat about the scheme?

Reasons for taking up (or not) the scheme

Facts about the schemes taken up (Which scheme? Savings level)

Was the scheme mentioned at interview?

Employees' views about next year's scheme

At maturity, cash or shares?

What action taken on previous year's schemes?

Employees' views about the invitation letter/brochure

Is employee saving in other ways?

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